Doing Business In Russia:

A Country Commercial Guide for U.S. Companies

Chapter 1: Doing Business In Russia

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- In 2005 the Russian economy continued its sustained steady growth. GDP grew by an estimated 6.4% to $765.5 billion. However, this represented a decline from 7.1% growth in 2004.
- As in 2004, high world prices for oil and natural gas continue to be the engine behind much of this impressive growth. The Russian economy still remains very dependent on energy and other extractive sectors, such as timber, precious metals, non-ferrous metals and steel, despite the Russian government's renewed efforts to build more of a manufacturing base. Extractive industries taken together account for more than 80% of overall exports and provide a significant part of federal budget revenues. Russia's industrial production grew only 4% in 2005 compared to 7.3% in 2004.
- The overall balance of trade continues to register healthy surpluses, as does the federal budget. In 2005, Russia's total exports during the first 11 months were $220.6 billion and imports were $111.1 billion. According to importing country statistics, U.S exports to Russia for the first 11 months of 2005 totaled $5.7 billion; while U.S. imports from Russia were $13.9 billion. Federal budget expenditures in 2004 are estimated at $96.3 billion with an estimated surplus of 4.3 % of GDP. Federal budget expenditures in 2005 reached 136.5 billion, with a surplus of 7.5%
- Due to high-energy prices, Russia's financial situation continues to become stronger and stronger, with a decline in its total external debt to $230 billion as of June 2005 and an increase in its sovereign credit ratings to investment grade. Moreover foreign investors have found the stock of Russian energy firms like Gazprom to be very attractive. During the past year the Ruble has remained relatively steady against the dollar, trading largely within a band of 28.9 to 28.2 Rubles to one U.S. Dollar.
- Adding to overall economic development, the year 2005 continued a multi-year trend of strong consumer spending and a construction boom. This dramatic growth shows more signs of spreading beyond Moscow and St. Petersburg to the regions. Per capita GDP is estimated to have reached $5,300 in 2005 as compared to $4,039 in 2004. With an 8.7% growth rate in 2005, real disposable incomes continue to outpace GDP growth.
- Leading European companies, especially those from Germany, France, Scandinavia and Turkey, are well established in both consumer and industrial markets in Moscow and St. Petersburg and are branching out to the smaller regional cities. Many well-known U.S. consumer brands are also successful and many Asian companies from Japan, South Korea and China are also doing well.

- This past year President Putin and the Russian state apparatus continued to reassert more state control, both direct and indirect, over the economy, especially in strategic sectors such as energy, aluminum, steel, automotive, machine tools and aerospace. At the same time there was the "privatization" of the major oil and gas companies by increasing the state's controlling share of the stock, while allowing foreign investors more access to energy stocks, like Gazprom. Terrorism remains an issue, but to date it has not been directed at Western interests. At present, it remains primarily connected to the ongoing conflict in the breakaway Republic of Chechnya in southern Russia.

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- Major barriers to the Russian market remain its distance from the U.S. and its erratic transition from a socialist, centrally planned economy to a more open, market-oriented one.
- European and Asian companies remain tough competitors for U.S. firms, due to their proximity to Russian markets and their long-standing relations with Russian organizations and companies.
- Government bureaucracy, poorly established rule of law and corruption affect such areas as establishing a business, tax collection, dispute settlement, property rights, product certification and standards, as well as Russian Customs clearance.
- Finding qualified local partners and employees is a difficult process. The pool of managers who understand Western accounting and business practices remains limited, as well as the pool of qualified, experienced Russians proficient in English.
- Adequate financial resources for Russian buyers still remain a problem, but it is not as acute as it was in years past. There are more foreign banks operating in Russia and more cash circulating within the economy due to the Russian oil and gas boom.
- The Russian government continues to use its oil and gas resources to increase the states' ownership in certain strategic industries and companies. So it is not completely clear to foreign companies which sectors are open to them for investment without Russian majority partners. The Russian Duma continues its work on defining what are Russia's strategic sectors.

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- There are strong growth possibilities in a range of consumer goods and services, which are being fueled by increases in disposable income in Moscow, St. Petersburg and the growing regional centers:
  - telecommunications equipment and services, especially wireless
  - autos and parts
  - computer hardware and software
  - cosmetics and toiletries
  - building products
  - franchising.

- Strong growth in the energy, machinery and healthcare sectors :
  - oil and gas equipment and services

- medical equipment
- pharmaceuticals
- agricultural machinery
- construction equipment

Market Entry Strategy

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- Perform detailed market research to identify specific sector opportunities.
- Establish a local presence or select a local partner for effective marketing and sales distribution in Russia. Due diligence is a must.
- Maintain a long-term timeframe for plan implementation and achieving positive results.
- Use the experience of other, successful U.S. companies in the market. The local American Chamber of Commerce has over 800 members and is a great resource.
- Be prepared to offer financing to Russian buyers. Both EXIM and OPIC have programs to address these needs.

Russia continues to be a major, fast-moving and growing economy offering opportunity and challenge in equal measure. While the economy is producing increasingly positive results, the country remains a complex place to do business. The best opportunities for experienced U.S. companies lie in developing exports in the sectors noted above. Most major corporations, especially those from Europe, have concluded that the vast potential of the country demands they have a presence in Russia, with its incredible natural resources, impressive human capital and 140 million consumers. A significant number are finding that presence to be profitable, and the majority express growing optimism for continuing profitable business opportunities in the future.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/3183.htm

Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor Return to top

Encompassing eleven time zones, Russia is the largest country in the world by landmass. Most businesses therefore tend to approach the Russian market on a regional basis. Moscow and St. Petersburg are the major population and business centers and are usually the best starting points. Well-organized distribution channels have developed significantly over the last few years, especially in Moscow and St. Petersburg, and are beginning to expand to the regions: Southern Russia, the Volga region, Siberia and the Russian Far East. To succeed in Russia it is important to choose sales targets and partners carefully. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for a recognized brand.

U.S. companies have four basic options when choosing a distribution channel:

1) **Selecting an Agent**
It is not a common practice in Russia for foreign companies to rely solely upon the services of an agent. Distributors and rep offices, however, often employ agents in the Russian regions in order to promote their products.

2) **Using Local Distributors**
The most common market entry strategy is to select a good distributor or several distributors (depending on the product). A distributor typically sells and delivers the foreign manufacturer's products to end-users and/or the retail market and provides logistical support (i.e., customs clearance, warehousing, inventory management, etc.). In general, distributors are not typically involved with the direct promotion of products. Rather, this is still the foreign company's

responsibility. Many Russian distributors have established networks in the Russian regions, which can afford foreign partners greater market penetration.

3) **Opening a Representation Office/Branch Office**
Some foreign manufacturers, in addition to using distributors have established their own representation offices. The major advantage of opening a rep office is that foreign companies have more direct contact with their end-users and control over the promotion and distribution of their products. However, rep offices cannot be directly involved in commercial activity, as they are not allowed to operate commercial accounts under Russian law. Instead, they typically oversee a network of distributors and/or agents within the country that perform the commercial function. This approach affords greater control by the foreign manufacturer/seller over the distribution process and helps to reduce possible risks.

4) **Registering a Foreign Company in Russia**
Registering a subsidiary of a foreign company in Russia is the most advanced option for operating in the Russian market as it provides the foreign company complete control over the entire sales process, from logistics support to the actual conclusion of final sales. For more information on registering a company in Russia, please refer to the "Establishing an Office" section below.

U.S. exporters are advised to cultivate personal relationships with their Russian representatives, proceed gradually, and retain a fall back position should a relationship sour. Experience reveals one of the riskiest practices: a company representative visits Russia once or twice, selects an agent, grants exclusive representation, and then moves quickly to consignment or credit sales without establishing a payment and performance record. In addition, exporters are cautioned to take responsibility for registering brands in their own names in Russia, and not rely on the agent or distributor to do this. Finally, it is important to provide your Russian representative with Russian language product information and marketing materials. These can be prepared in the U.S. or done jointly with the Russian partner, whatever is appropriate for the parties concerned.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the International Partner Search, Flexible Market Research and the Gold and Platinum Key Services. Contact information is in Chapter 10.

The Foreign Agricultural Service (part of the U.S. Department of Agriculture) provides similar assistance to U.S. exporters of agricultural and food products. Complete contact information is provided in Chapter 9.

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Registration Options

The following basic laws and Government resolutions regulate business registration in Russia:

- The 1999 Federal Law "On Foreign Investment in the Russian Federation",
- The 1999 Civil Code,
- The August 8, 2001 Federal Law "On State Registration of Legal Entities"

(entrepreneurs),
- Russian Government Resolution No. 319 "On Authorized Federal Entity of the Executive Power, Providing State Registration of Legal Entities" of May 17, 2002, and a number of legal acts.

Conducting business without registration is illegal. Although the federal law governing the process is uniform throughout Russia, it is often subject to local interpretation.

Russian law offers several commonly used structures to conduct business:

- Limited Liability Company (OOO),
- A privately held, closed joint stock company (ZAO),
- Publicly held, open joint stock company (OAO) (the above three modes are referred to as Companies in the text below),
- Representative or branch office of a foreign company,
- Registration as an individual private entrepreneur.

Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint-stock companies with partial Russian ownership, or as wholly owned subsidiaries of the foreign firm. Foreign ownership can be as high as 100%, except in certain sectors. For example, foreign stakes are restricted to 25% of defense-related enterprises.

Branch Offices

In Russian terminology, branches are not considered independent legal entities, though they can negotiate, market or provide other business support on behalf of firms based outside Russia. However, they cannot technically generate a profit on their operations in Russia. Setting up a branch may be worthwhile if a foreign company has started to pursue business in Russia and is exploring opportunities. Many large U.S. firms originally began their Russian operations as locally established branches. U.S. firms should not use the term "branch" with registration authorities if the purpose is to register as a company. Branches of foreign forms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Registration details are available on the following web site: www.palata.ru. As part of the registration, the State Registration Chamber will include the newly registered branch in the State Register of Branches of Foreign Legal Entities Accredited in Russia.

Accredited Representative Offices

Like branches, accredited representative offices are not independent legal entities and cannot earn a profit in Russia. After accreditation is obtained from an appropriate Russian Government unit, the office should register with the Moscow or St. Petersburg registration chambers (if based in Moscow or St. Petersburg) or local (regional) registration chamber in other cities in Russia. Advantages of an accredited office include annual (rather than monthly) reporting requirements for some activities (including some tax payments), and greater leeway in issuing invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three year terms. Branches can be accredited for a five-year term.

Accredited Representative Offices must also register with the State Registration Chamber in order to be included in State Register of Branches of Foreign Legal Entities Accredited in Russia. They are advised to also register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development and Trade, Ministry of Finance, Ministry of Transportation, and Ministry of Industry and Energy. According to the law, accreditation of a representative office or of a branch should take 21 days. Accreditation fees are as follows: representative offices - $1000 for one year, $2000 for two years and $3000 for three years, branches – 60,000 rubles (approx. $2,000) plus $500 for the first year with an increase of an additional $500 a year up to 5 years. An additional $500 may be paid for an expedited accreditation within seven days.

Further information is available on the State Registration Chamber website: www.palata.ru

Companies

Beginning July 1, 2002, companies (full-fledged businesses) are required to be registered with the local Tax Inspectorates. Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001 Federal Law "On State Registration of Legal Entities". An authorized legal entity, the Moscow Department of the Ministry of Finance of the Russian Federation (15 Tulskaya Street, Moscow) is currently providing counseling to business people on the new registration procedure and registration documents.

Further information on company registration, including the list of documents to be submitted, as well as contact information for local tax authorities can be obtained from the following website: www.mosnalog.ru

The U.S. Commercial Service can provide counseling on registration requirements and procedures. The U.S. Commercial Service strongly recommends that interested U.S. companies seek legal advice on business registration, and can provide contact information for U.S. and Russian consulting firms who offer professional legal advice in this area.

Taxation

Major revisions of Russia's tax code took place over three years from 1999 to 2002. Current tax legislation more closely matches the needs of a growing market economy, and many of the provisions of previous legislation that distorted the business environment and kept many businesses in the shadow economy, have been removed.

The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected Value Added Tax, Excise Taxes, Individual Income Tax, Unified Social Tax and Profits Tax. Also affected was the Federal Law "On the Introduction of Amendments and Additions to Part II of the Russian Federation Tax Code and to Separate Russian Federation Legislative Acts." These new changes aimed at improvement of Part II of the RF Tax Code were passed by the Duma and enacted into law by 2003.

Implementing the numerous recent changes in the Russian tax code will inevitably result in a certain level of confusion. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to confirm details and stay abreast of developments.

Profits Tax

The profits tax is levied on an enterprise's gross profits. Effective January 2002, the profit tax rate was reduced from 35% to 24%, a list of deductible expenses was drawn up, and the provisions on depreciation were changed. Thus, the tax rate has been reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined effect of which is to alleviate significantly the profit tax burden for taxpayers.

The new provisions on the taxation of profit will enable foreign companies operating in Russia to benefit from the exemptions in Russia's dual taxation treaties (the U.S. and Russia have had a dual taxation treaty in place since 1992), which in certain cases could result in advantages to foreign companies. For example, foreign representative offices will be permitted to deduct expenses incurred on their behalf by a parent company located abroad.

Value Added Tax (VAT) and Import Duties

VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the EU model. VAT is calculated on the sales value and is applied at a general uniform rate of 18%, except for certain foodstuffs, pharmaceuticals and children's clothes, which are taxed at 10%, and certain supplies that are entirely exempt from VAT (certain financial services and medical equipment). (In June 2003, the Duma passed a bill to cut VAT from 20% to 18%, to be offset by an increase in various extractions and export taxes aimed at the energy sector. The new rate became effective January 1, 2004.)

Imports are also subject to VAT and are calculated based on the customs value of the item plus customs duties and customs fees. Import duties are assessed at specified rates, ranging from 5 to 30%. They are also assessed according to classification and are applied to the customs value of the imported goods (including shipping charges and insurance). Goods imported as in-kind contributions by foreign partners to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents under certain conditions.

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported, are not subject to VAT. If these goods are exported before payment is received, then no VAT is collected. On the other hand, if payment is received before shipment, the exporter must pay the applicable VAT and then request a refund from the tax authorities.

Social Welfare Taxes

Effective January 1, 2001, one Unified Social Tax (UST) replaced employers' contributions to three separate social benefit funds (the Pension Fund, the Social Security Fund and Mandatory Medical Insurance Fund). A business is liable for the entire tax due, and no amount is actually withheld from employees. The total liability for each employee is calculated on the basis of his/her monthly gross pay.

In accordance with the current Tax Code the employer is obliged to pay UST for foreign individuals. There is an annual descending scale for this tax – 26.0 percent on the first 280,000 rubles, 10 percent on earnings from 280,001 to 600,000 rubles, and 2 percent on all earnings over 600,000 rubles.

Reduced UST rates apply to the following business categories: agricultural producers (20 percent), private entrepreneurs and farms (10 percent) and attorneys (8 percent).

Withholding on Dividends, Interest and Royalties

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 6% on freight services rendered in Russia. Dividends and interest are taxed at a rate of 15%; royalties at a rate of 20%. These rates are often applied according to the relevant double taxation treaty. Lease payments and other income are subject to a 20% withholding rate.

Land, Property and Personal Income Taxes

Local authorities may levy a tax on land according to its type and location. The rate is higher in Moscow and St. Petersburg than in other cities and rural areas.

The personal income tax rate is now a flat 13%, following the recent tax reform legislation, which sharply reduced the former graduated rate. When applied to expatriates, however, there may be some withholding requirements.

Franchising

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During the past 10 years, the franchising sector has developed in Russia mainly in customer oriented segments such as fast food/restaurant/catering, retail, education and training, fitness and health care, recreation and entertainment, travel and lodging, and automotive. Franchising in business-oriented services is also increasing. Examples of the B2B segments where franchise models already successfully work are: cleaning services and maintenance, transportation, logistics, express mail services, management training and consulting.

Franchising is most visible in the fast-food sector. Many local and international fast-food franchise concepts successfully operate in the market, although it is far from being saturated. Expansion of casual dining is expected over the next few years, as emerging local and new global players enter the market. Also, there is a growing demand for cafes (coffee-shops, tea-rooms, etc.) as the culture of drinking coffee and tea in cafes is becoming part of the Russian lifestyle.

Franchise opportunities also exist in retail trade. According to recent statistics published by Interfax Business News Agency, turnover in Russian retail trade grew by 11.4% to $132 billion in the first half of 2005. If these strong growth trends continue in 2006, as they are predicted to do in line with Russia's expanding economy, opportunities for franchise concepts engaged in retail and consumer goods will abound.

Direct Marketing Return to top

Telemarketing and fax marketing to business customers is common in Russian cities but not particularly effective. By contrast, person-to-person direct marketing works well and is cost effective for the distributor (e.g., health and beauty products). By some estimates, over 1.5 million people may be employed in direct marketing in Russia, although the informal nature of the activity makes precise figures difficult to obtain. For a large number of under-employed workers in Russia, the option of supplementing their meager wages through working in direct sales is attractive. Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Major, well-known U.S. direct marketers such as Amway, Avon, Mary Kay and Tupperware are active in Russia and doing well. Research indicates that direct sales accounted for 18 percent of total cosmetics and toiletries sales in 2004. Russian law, however, forbids using direct sales for marketing biologically active food additives and vitamins. At the present time, these products can only be sold through pharmacies, kiosks, and health stores.

Joint Ventures/Licensing Return to top

U.S. companies often become strategic partners with Russian firms by taking an equity position in Russian joint stock companies and thus establishing joint ventures (JV). Establishing a JV in Russia demands meticulous planning and sustained commitment. In most cases, other forms of alliance, in which the U.S. partner retains managerial control, are preferable. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Recent experience shows that foreign minority shareholders face serious difficulty in protecting their interests in Russian courts.

One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. Political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

JVs are often viewed differently by the Russian and American sides. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner who does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations.

One JV scenario often leads to commercial failure and, in some cases, bitter legal disputes: A U.S. company forms a JV with a Russian partner after a short history of cooperation. The American firm then returns to the U.S. as an "absentee" partner. The company has the expectation that the Russian partner will manage daily operations, implement a business plan, and wire profits on schedule. This is a recipe for disaster. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of American managerial staff to keep the business on-course, both before and after the venture has achieved commercial success.

U.S. technology is sometimes licensed for Russian production outside the context of a joint venture. Chief hurdles that must be overcome include quality levels attainable by Russian facilities in the absence of significant retooling, uncertain intellectual property protection (especially in the software industry) and difficulty in receiving regular and prompt payments. In the opposite direction, Russian companies generally are eager to license their technologies to foreign companies in exchange for the cash infusion.

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A law on federal procurement, adopted in May 1999, allows foreign firms to participate in public tenders if the product or service is not available from domestic producers, or if Russian production is not considered economical. Regional or local authorities are potential customers for U.S. suppliers. For example, the Federal Ministry of Health and Social Development and some of the regional administrations often buy supplies for distribution to hospitals and clinics. While local governments receive sharply reduced federal subsidies, they have the flexibility to make purchase decisions based on local factors and contacts. Although Russia's current fiscal situation has improved recently, especially at the federal level, funding for procurement is always a challenge. It should also be noted that there is pressure on many levels of government to purchase Russian goods and services.

Distribution and Sales Channels Return to top

Well-organized distribution channels have developed significantly over the last few years, particularly in the major population centers, such as Moscow and St. Petersburg, and are beginning to expand to the regions. In the consumer sector, some large-scale retail stores have recently emerged in Moscow that are able to buy in bulk and negotiate relatively stable long-term prices. Large shopping malls have opened up on the ring road circling the capital and are giving the Moscow retail environment more of the characteristics of other European cities.

By utilizing these increasingly professional domestic distributor organizations, the task of bringing goods to market in Russia has been greatly eased. However, their geographic coverage can be limited, and accessing markets in some of the regions can still be problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable (but tough) competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of western-style stores in major cities, much distribution still takes place through such informal channels as kiosks and open markets. Utilizing these channels is often key to success for an American company operating in the Russian market. Those who succeed do so through a combination of improvisation and innovation, combined with a substantial investment of time and a tolerance for early mistakes. U.S. companies with a long-term market development strategy may find regional markets well worth exploring.

St. Petersburg remains the main port of entry for a variety of consumer and industrial products for European Russia (Russia west of the Urals). Vladivostok is the main port of entry for the Russian Far East. In general, the transportation infrastructure in this vast country is still underdeveloped and in need of major upgrades. The majority of cargo moves by rail and the road network needs to be expanded. Major Western freight forwarders and express couriers are active in Russia.

Selling Factors/Techniques

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To succeed in Russia it is important to choose sales targets and partners carefully. In general, Russian consumers seek bargains and are price sensitive, but they are willing to pay for quality, especially for a recognized brand.

Electronic Commerce

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B2B E-commerce is growing as the number of Internet users has increased dramatically over the past five years, reaching 15% nationwide. Most of these users, however, are in Moscow and St. Petersburg. Future growth in Internet usage is expected to be significant, but E-Commerce in general and B2C in particular, are constrained by the lack of on-line payment mechanisms. Many shippers are reluctant to send goods without prepayment, and memories of the 1998 freeze on bank accounts during the financial crisis still linger. The number of customers with credit and debit cards is rapidly increasing. Although card use is expanding, its scarcity remains a key constraint on the growth of catalog orders and e-commerce. Nevertheless, sales through these channels are expected to grow rapidly in coming years. The Russian Government's "E-Russia" program aims at stimulating the growth of e-commerce throughout the country using federal and local e-government initiatives as a catalyst.

Trade Promotion and Advertising

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Television, radio, print, and billboard media are ubiquitous in the Russian market. Most international advertising agencies are active in Russia, along with domestic agencies, and the quality of their services is world class.

Until the financial crisis of late 1998, and the subsequent devaluation of the ruble, foreign multinational consumer products companies had provided most of the revenues for Russia's budding advertising industry. These revenues collapsed after the crisis, as imported goods became prohibitively expensive for most Russians. However, the effects of the crisis had largely worn off by 2002, and strong economic growth and increasing incomes have resulted in a resurgence of the advertising industry. This time around, their clients include successful Russian manufacturers of consumer goods, particularly of processed foods and beverages

There is a local tax levied on all enterprises that have advertising activity. In Moscow and St. Petersburg the advertisement tax rate is 5%, levied on the cost of advertising goods and services, excluding VAT. Advertising expenses only became tax deductible in January 2002, when Chapter 25 of the Russian Tax Code came into force.

There are abundant opportunities to reach customers through Russia's vigorous print media. The country has a large number of specialized publications catering to most interests, and Russian-language trade journals are good marketing vehicles. Russia also has a large number of popular general interest newspapers and magazines, several of which have national circulation. In Moscow and St. Petersburg, there are high quality English and German language daily or weekly newspapers that reach the high-income foreign business and government communities. For contact information and price levels for advertising in local newspapers and magazines, please contact the U.S. Commercial Service in Moscow at Oganes.Sarkisov@mail.doc.gov.

Participation in a well-organized trade show is one of the best ways for a company to enter the Russian market, facilitating contact with potential buyers and distributors. U.S. firms are advised to exhibit at Russian trade shows, as they remain powerful marketing tools and reassure Russian buyers that the company is committed to maintaining a presence in the Russian market. Companies occasionally make substantial floor sales at Russian exhibitions. Representatives of regional governments and state enterprises from remote areas often visit exhibitions in major cities to purchase goods. The U.S. Commercial Service in Russia organizes U.S. Product Literature Centers (catalog shows) at many of Russia's major trade shows. These events provide U.S. firms with an opportunity to explore the market and test their products without actually visiting the country. A list of major trade exhibitions is found in Chapter 9**.**

The U.S. Commercial Service can help U.S. companies gain exposure in the Russian market through its website and the FUSE (Featured U.S. Exporter) service. Please see: www.buyusa.gov/russia

Pricing

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As noted elsewhere, Russian consumers are attracted to bargains, but are willing to pay for quality merchandise. U.S. companies exporting to Russia should be prepared to offer competitive prices for their goods, knowing that in many areas they face inexpensive Russian and strong third-country competition. With a few exceptions, all goods and services sold in Russia are subject to a value-added tax of 18%. As noted above, imports into Russia are subject to VAT, which is assessed on the CIF value of an imported shipment plus applicable duty. In addition, in many sectors with strong local and third-country competition, it will be necessary to spend money on advertising. All these costs should be figured into the U.S. exporter's pricing structure and be part of a long-term marketing and sales program.

Sales Service/Customer Support

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Good after-sales service, training and customer support can be a major competitive advantage for U.S. firms entering the Russian market. Russian manufacturers are notorious for inadequate post-sale service and as a consequence, for low cost items, Russian buyers are accustomed to purchasing several units in order to have a supply of spare parts. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may never have used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, can gain a significant advantage over competitors. Conversely, companies not willing to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component to accessing leasing in Russia, and will play a larger role in the decision process as leasing continues to develop. Leasing in Russia is covered in Chapter 7.

Protecting Your Intellectual Property

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For detailed information concerning Intellectual Property Rights in Russia, please refer to Chapter 6, Investment Climate and the U.S. Embassy in Russia's IPR Toolkit.

Due Diligence

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As noted elsewhere, Russia can be a challenging market fraught with obstacles for the U.S. company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and selecting local partners is not advisable. Complicating these efforts is that fact that the Russian economy is still in transition from a closed, socialist economy to a more open, market economy. This means that basic business information about regulations, company ownership and credit worthiness are not always easy to find. The U.S. Commercial Service offers the International Company Profile service as a way to evaluate potential partners. For more information on this and other services, please see our website at: www.buyusa.gov/Russia. Noted below are more resources that can help you get the information you need to understand the Russian market and be successful.

Local Professional Services

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While professional services in Russia are expensive, it is perilous to avoid this expense. In Russia's unsettled commercial environment, early advice on tax and legal issues will ultimately save both aggravation and money. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees. Often, these decrees and laws overlap or conflict. Determining tax obligations is a tedious task. Furthermore, Russian accounting practices differ markedly from Western standards. Although the Russian Government has officially said that conversion to international accounting standards is a priority, the process is still far from complete.

Moscow and St. Petersburg have large offices of major western accounting, legal and consulting firms blending the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or Western management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices throughout Russia maintain lists of local attorneys and accounting firms. The American Chamber of Commerce in Russia is also a good source.

Web Resources

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The U.S. Commercial Service in Russia: www.buyusa.gov/russia
The U.S. Department of Agriculture: www.fas.usda.gov
The U.S. Embassy in Russia: http://moscow.usembassy.gov
U.S. Embassy in Russia's IPR Toolkit:
http://www.usembassy.ru./bilateral/bilateral.php?record_id=ipr
State Registration Chamber website: www.palata.ru

Company Registration: www.mosnalog.ru

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

Telecommunications Equipment and Services #1

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(All figures in USD millions)

	2003	2004	2005 (estimated)
Total Market Size (Equipment and Services)	11,900	18,000	20,600
Total Local Production	N/A	N/A	N/A
Total Equipment Market Size	1,900	3,300	4,100
Total Exports (Equipment Only)	275	391	420
Total Imports (Equipment Only)	N/A	2,740	2,860
Imports from the U.S.	500	600	700
Total Services Market Size	10,000	14,700	16,500

(Note: The above figures are based on Russian Customs statistics and may underestimate imports from the U.S. Due to their corporate structure some U.S. equipment manufacturers ship product from their European warehouses. Russian Customs may attribute such shipments to Europe rather than the United States despite the U.S. origin of the product. $1 = R 28.00)

The Russian telecommunications market has continued to demonstrate strong growth over the last year driven by Russia's continuing strong economic performance, and the need to upgrade the generally inadequate telecommunications infrastructure throughout the country. In 2004, the Russian market for telecommunication equipment sales reached 3.3 billion.

Cellular communication services revenue reached $10.4 billion in 2005, which was a 35% increase over 2004. Revenue from cellular services is estimated at $7.6 billion for 2004, which represents the lion's share of the telecom services market. The number of cellular subscribers reached 120 million in 2005. The penetration rate nationally grew to 80%. The cellular communication market is very concentrated, with 87% of total revenue belonging to three major national cellular operators: MobileTeleSystems (MTS), VympelCom and Megafon. The total revenue for fixed-line connection services increased by 25% from $7.9 billion in 2004 to $10.2 billion in 2005. The number of Internet subscribers reached 15 million in 2004 and grew 20% to 18 million in 2005. Total revenue for Internet services increased by 48% from $780 million in 2004 to $1.5 billion in 2005. In June 2003, the Ministry of Communications adopted a new federal communication law "O svyazi" (On Communications).

The new law, with its many contradictions, is still highly controversial. Due to a number of unclear clauses, the law has not functioned effectively since it was introduced. Experts claim the communication law will still not operate properly into 2006. Some of the burning issues are incomplete licensing procedures, a universal service tax, unequal rights for current market players, lack of transparency, and the more general need to change the Ministry of Communications from an active market player into a regulatory body.

Best Products/Services

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The highest market growth is expected for VAS (value added services). Total revenue grew 60% and reached $1.5 billion in 2005 in comparison to $600 million in 2004. The most popular services are ring tones and logos, media-projects, and information and entertainment.

Continued growth in the Russian telecommunications services market will yield business opportunities for competitive U.S. telecommunications equipment suppliers. The best sales prospects are digital switching equipment, high-speed, broadband Internet access technologies, multi-service and multimedia solutions, including SDH, xDSL, ISDN, DWDM, BWA, and call center equipment. Companies entering the market should be prepared to compete with major foreign equipment manufacturers and deal with a complex regulatory environment.

Opportunities

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One opportunity for U.S. companies is the modernization of payphone systems in Russia. Payphone system modernization is a government level priority project, mentioned in the new federal communication law "O svyazi". Companies affiliated with Svyazinvest (major state-owned telecom holding) are developing business plans as a part of this effort and U.S. payphone equipment companies are welcome to bid on these projects.

Resources

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http://english.minsvyaz.ru/enter.shtml: Official site of Ministry of Communications:

http://www.ejkrause.com/events/3206.html: Svyaz ExpoComm 2006 Trade Show

http://www.cstb.ru/index_eng.php: Cable & Satellite TV, Teleradiobroadcasting and Broadband Exhibition

Automotive Parts & Aftermarket #2

Overview

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(All figures in USD millions)

	2003	2004	2005 (estimated)
Total Market Size	4,500	5,000	5,500
Total Local Production	2,900	3,200	3,450
Total Exports	200	200	200
Total Imports	1,800	2,000	2,250
Imports from the U.S.	500	700	800

($1 = R 29.00)

In recent years, the Russian automotive market has grown at an annual rate of 10-15%. This market offers good opportunities for new car sales despite substantial import tariffs. Many imported car dealers reported record results by increasing sales of new cars from 350,000 vehicles in 2004 to almost 450,000 in 2005. In 2006 the import market for new cars is expected to exceed 500,000 units. The import of used cars and trucks has remained relatively stable over the past three years. These trends are expected to continue in the next few years.

The market for car components and aftermarket replacement parts is likely to become stronger as car ownership steadily increases and customers demand higher performance from domestically produced cars. Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 20% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 33 million units, including 23 million cars (50% of which are 10 years or older, and another 30% are between 5 and 10 years old).

The Russian auto industry represents a major force in the domestic economy because of highly competitive pricing, but quality must improve if the industry is to maintain its position. Russian vehicle assembly and component manufacturing factories remain plagued by outdated equipment, a lack of capital for modernization, and underdeveloped distribution systems. Nonetheless, the automotive sector of Russia's economy is in better shape than many other industries. In 2001-2002, several Russian automotive companies were acquired by two influential business groups: Basic Element (formerly Sibal), the largest Russian aluminum manufacturer, and Severstal, the leading Russian steel producer. Both Basic Element and Severstal successfully started restructuring of their automotive assets and started investing in the modernization of these outdated facilities. A majority of component manufacturing assets was acquired by the SOK Group.

There are several projects underway to assemble foreign cars in Russia. Ford's new plant began operation in July 2002 in a suburb of St. Petersburg, and the demand for Russian-manufactured Focuses exceeded even the best expectations. This high demand for the new Focus model made Ford one of the sales leaders in 2004 with 36,000 vehicles sold. Sales for 2005 reached an estimated 60,000 vehicles. The GM-AvtoVAZ joint venture, which launched production of the Chevrolet-Niva SUV in

September 2002, sold 58,000 cars in 2004, and set 75,000 vehicles as a sales target for 2005. Recently, Renault started manufacturing a new low-cost Logan vehicle at a Moscow-based facility.

In 2005, the Russian company SOK started assembly of the KIA Spectra in Izhevsk with planned annual output of 40,000 vehicles. Toyota also started construction of an assembly facility in St. Petersburg, which is projected to start manufacturing the Camry model in 2007.

Other smaller foreign CKD car assembly projects in Russia include BMW, Kia and Hyundai in Kaliningrad and Taganrog, and bus projects by Scania and Volvo. The major obstacle to successful development of foreign assembly projects in Russia is the lack of local component suppliers.

Best Prospects/Services Return to top

Engine and engine components, steering components, brake system components, powertrain components, seats, tires, interior components, new car dealerships.

Opportunities Return to top

The best opportunities for U.S. firms are in the establishment of local manufacturing facilities or the formation of joint ventures with Russian firms and the supply of components to foreign vehicle assembly projects in Russia. Those projects' operators are so interested in developing component supplier bases that they are ready to financially support interesting projects. International financing institutions, such as EBRD (European Bank for Reconstruction and Development), are also inclined to provide financing for automotive projects in Russia.

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transferring of modern technology to Russian component manufacturers. Aftermarket sales of replacement parts and accessories are dynamic, with high customer receptivity to U.S. products. Many U.S. brand names are very well known and sold in Russia. Some of the "Made in the USA" products, which Russian motorists seem to favor, are: lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for many imported spare parts are a relatively low 5%.

In March 2005, the Russian government decided to significantly decrease import taxes for automotive components imported by OEMs. The government decision envisages that import taxes will eventually be either abolished (engines, power trains, exhaust systems, and body parts) or cut to as low as three percent (starters and spark plugs) for components supplied to assembly projects.

In order to enjoy these new tariffs, assembly projects must meet the following criteria:

- The project must have a minimal annual capacity of 25,000 vehicles and employ a two-shift operation;

- The assembler must put a greenfield project into operation within 30 months or a brownfield within 18 months;
- The assembly process must include body welding, painting and assembly; and
- Assemblers must achieve 10 percent localization within the first 24 months of operation, 20 percent within the following 18 months, and 30 percent within the following 12 months, so that, after the first 4.5 years of an automotive assembly project's operation the localization reaches at least 30 percent.

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http://www.motorshows-ite.com

http://automechanika.messefrankfurt.com/petersburg/en/

http://www.interauto-expo.ru

http://www.ey.com/global/Content.nsf/Russia_E/International_Automotive_Supplier_Industry_in_Russia_-_Executive_Summary

http://www.ifc.org

Oil & Gasfield Equipment and Services #3

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(All figures in USD millions, $1 = R 28.00)

	2003	2004	2005 (estimated)
Total Market Size	1400	1660	2000
Total Local Production	960*	1000*	1300*
Total Exports	420	500	560
Total Imports	540	6600	700
Imports from the U.S.	270	300	330

(The above figures are based on Russian Customs and U.S. Department of Commerce unofficial estimates*.)

Russia's oil and gas industry continues to prosper from growing production, sustained high prices and increasing exports. The latest mergers and acquisitions including purchase of Sibneft by Gazprom have shown that the industry is consolidating and maturing, and is emerging as a leading driver of growth within the energy sector in terms of operation, service, equipment and technological development.

Industry experts anticipate that major oil and gas development projects in the Tyumen, Yamal Peninsular, and Timan-Pechora areas in Western Siberia, as well as multiple Sakhalin projects and upcoming East Siberian onshore and Barents and Caspian offshore projects, will attract substantial additional cash inflow and catalyze technological upgrades as well as construction, infrastructure and other services for oil and gas field development on a large scale. In the natural gas segment, particularly LNG, local oil companies increasingly show interest in getting a piece of the action in spite of Gazprom's monopoly position.

In autumn 2005, the Russian government signed an agreement on the construction of the North European Gas Pipeline (NEGP), with pipeline gas transportation taking precedence over the export of liquefied natural gas (LNG). Other recent developments include the development of a shortlist of foreign participants in the Shtokman oil and gas project and the commercial commissioning of the Blue Stream Pipe in Samsun, Turkey.

Best Prospects/Services
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Oil and gas field machinery, oil recovery, exploration and field management services are expected to remain in first place for U.S. exports to Russia. The best prospects for U.S. equipment and services are oil recovery, well optimization, horizontal drilling, hydro-fracturing equipment and services, offshore development technologies and equipment, work-over, rehabilitation/reconditioning equipment/services as well as drilling and well tools and products, and idle well re-commissioning services.

Opportunities
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Major Russian oil companies are steadily increasing their capital expenditures on upstream development, infrastructure and rehabilitation equipment and services. In 2005, the market of oilfield and gas services was estimated at $10 billion.

U.S. equipment, technological solutions and products for the industry are recognized for their excellent quality and after-sales service. U.S. manufacturers can further improve their market share by offering state-of-the-art technology and products and by employing reputable agents and/or distributors. Price continues to be the main competitive factor limiting equipment exports to Russia. To reduce manufacturing, transportation and other costs U.S. producers may wish to consider bringing their technologies to Russia and partnering with local manufacturers to make their products and equipment more competitive.

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http://www.minprom.gov.ru: Ministry of Industry and Energy of the RF

http://www.mnr.gov.ru: Ministry of Natural Resources

http://www.oil-gas.biz: Association of Oil and Gas Equipment producers

Fourth Russian Petroleum and Gas Congress
Alongside Neftegaz Exhibition
Moscow, Russia
June 20-22, 2006

ITE Pavilion at NEFTEGAZ 2006 Exhibition
11th International Oil & Gas Exhibition - NEFTEGAZ 2006
Moscow, Russia
June 19-23 2006
http://www.mioge.com/conference.html

Franchising #4

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(All figures in USD millions)

	2003	2004	2005 estimated
Total Market Size	780	940	1.2 bln
Total Local Production	360	440	550
Total Imports	420	500	650
Imports from the U.S.	130	180	250

(Above figures are best estimates based on local sources of information)

Over the course of the past several years, the spending patterns of Russia have started to resemble those of the Unites States and Western Europe, creating a demand for name brands and quality products. In order to meet such expectations, Russia has experienced an increase in the number of private Russian enterprises and entrepreneurs who have sought partnerships with recognized Western companies.

Several well-known U.S. franchises have successfully entered the Russian market. Among the most visible brands are: Alphagraphics, Baskin Robbins, Candy Bouquette, ChemDry, Chips Away, Crestcom, Domino's Pizza, Fastrackids, Gold's Gym, Jani King, KFC, LMI Consulting, Mail Boxes Etc., Office 1 Superstore, Papa John's, Pizza Hut, Pizza Di Roma, Sbarro's and Subway. The U.S. Commercial Service in Russia is working with a number of prospective franchisers that are either finalizing agreements with local partners or in the midst of constructing their first stores in Russia.

As is apparent from the list above, fast food/restaurant/catering is one of the areas in great demand for U.S. franchise models. U.S. market presence is also highly visible in business education and training services, business services, children's services/preschools, cleaning services, and automotive services. The majority of non-U.S. foreign franchises in Russia are from Western Europe, mainly the U.K., France and Germany.

It is difficult to make a precise assessment of the current volume of the franchising sector and its future growth, other than to predict a commonly-shared opinion that franchising is set to grow very rapidly. Due to the peculiarities of local legislation regulating this sector in Russia, there is as yet no definitive source for market statistics. Franchise relationships are registered under various legal forms, such as a licensing agreement or a sales contract, making it almost impossible to distinguish franchise deals from other transactions in the records of the State Registration Chamber - the main source of statistical data on the Russian market.

In 2002, the Russian Franchise Association (RARF) used indirect data to describe the market volume and reported that, in its first 10 years of activity, franchising generated over 17 thousand jobs and attracted more than $350 million in foreign investments to Russia. In 2005, RAFR estimated that the number of franchise systems operating in Russia had reached 150.

Another reflection of the dynamics of franchise market development is the growth of participation of domestic and international brands in the BuyBrand-2005 International Franchise Exhibition, which has been an annual event in Moscow since 2003:

BuyBrand 2003 (November, 2003) - 67
BuyBrand 2004 (September, 2004) - 85
BuyBrand 2005 (September, 2005) - 138

Best Prospects/Services Return to top

During its more than 10-year history in Russia, the franchising sector has developed mainly in customer-oriented segments, such as fast food/restaurant/catering, retail, education and training, fitness and health care, recreation and entertainment, travel and lodging, and automotive. Franchising in business-oriented services is also picking up. Successful examples of the B2B segments where franchise models already work are: cleaning services and maintenance, transportation, logistics, express mail services, management training and consulting.

By all means, franchising is most visible in the fast-food sector. Many local and international fast-food franchise concepts successfully operate in the market, although it is far from being saturated. Expansion of casual dining is expected over the next few years, as emerging local and new global players enter the market. Also, we see growing demand for cafes (coffee-shops, tea-rooms, etc.) as the culture of drinking coffee and tea in cafes is penetrating the Russian lifestyle.

Franchise opportunities also exist in retail trade. According to recent statistics published by Interfax Business News Agency, turnover in Russian retail trade grew by 11.4% to $132 billion in the first half of 2005. If these strong growth trends continue in 2006, as they are predicted to do in line with Russia's expanding economy, opportunities for franchise concepts engaged in retail and consumer goods will abound.

Opportunities Return to top

Significant opportunities for development exist in lodging (hotels), entertainment, education, training, healthcare, fitness, real estate, business services, and other services.

The U.S. Commercial Service receives numerous inquiries from local entrepreneurs, investors and companies seeking franchise opportunities with U.S. businesses in various sectors. The most frequently requested include the following:

- Automotive Products/Car Wash
- Business Services
- Children's Services/Preschool Education
- Clothing and Shoes
- Design
- Educational Services/Training
- Fast Food/Restaurant/Catering
- Health/Beauty/Fitness
- Lodging/Hotels/Motels
- Laundry/Dry Cleaning/ Commercial Cleaning Services
- Marketing/Public Relations
- Postal services
- Printing/signage
- Recreation Facilities/Equipment & Services
- Retail Stores/Specialty Stores

There is also a demand for education and training in the area of franchise development. The U.S. Commercial Service has frequently fielded requests from local authorities and business associations seeking information about franchise legislation and regulations in the U.S. In 2006, SABIT will organize a Russian delegation to travel to the U.S. that will consist of governmental officials, members of franchise associations, and private sector companies. The purpose of the trip will be to study the legal environment for franchising in the U.S. and learn how business associations service the needs of the industry.

The U.S. Commercial Service is organizing a Franchise Trade Mission to Russia during the time of the International Franchise Exhibition BuyBrand 2006, which will be held in

Moscow on October 31 – November 2, 2006. If you are interested in additional information about the program, please contact Commercial Specialist Oganes Sarkisov. If you are interested in learning more about the BuyBrand 2006 exhibition, please visit http://buybrand.ru/eng or contact Ms. Natalia Kharatian, Sales & Marketing Director of the BuyBrand Show organizer ExpoFAR company at Phone: 7 (495) 929-0439 Fax: 7 (495) 929-0439 or Email: marketing@expofar.org.

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http://www.rarf.ru/eng: Russian Franchise Association:

http://ko.ru: Kompaniya

http://buybrand.ru/eng: BuyBrand

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Moscow, 109012
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Web Site: http://www.expofar.org

Medical Equipment # 5

Overview

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(All figures in USD millions)

	2003	2004	2005
Total Market Size	1,400	1,600	1,800*
Total Local Production	440	450	460*
Total Exports	40	50	60*
Total Imports	1,000	1,200	1,400*
Imports from the U.S.	220	288*	336*

(Source: Federal Customs Service, Federal State Statistics Committee, * Estimates)

Russia's healthcare system is evolving rapidly and represents many promising areas for medical equipment exports. It is currently estimated that only one fifth of the Russian population of 144.2 million has access to quality healthcare. Despite this, Russia's healthcare network is enormous and includes 9,663 in-patient hospitals, 16,615 out-patient polyclinics, and 3,252 emergency stations. Further, Russia has 608,588 doctors and 1,388,349 paramedics. The majority of hospitals and polyclinics are public and belong to federal, regional or local governments. There is also a significant number of so-called agency healthcare establishments to serve specific large governmental entities such as the Ministry of Transportation, Ministry of Economic Development and Trade, Ministry of Defense, etc. While there is strong growth in the number and size of private clinics, they currently occupy only 3 percent of the market and most are specialized in the areas of dental, eye, and cosmetology clinics.

A significant portion of the medical equipment and devices used in public clinics and hospitals is obsolete and needs replacement. Russia does not produce many types of high-end medical equipment and relies exclusively on imports of such equipment. While the resulting opportunities in the market are vast, financing remains insufficient to address the needs of the medical industry. Total public healthcare spending in Russia at all levels comprises only 4.1 percent of the GDP in comparison to 9-11 percent in developed countries. The average Russian citizen's out-of-pocket expenses for pharmaceuticals, medical devices and services are equally low.

During the past three years, the Russian medical equipment and devices market has shown substantial and steady growth with annual growth rates exceeding 10 percent. The total volume of the market in 2005 is estimated at $1.8 billion. Imports have played a significant role accounting for approx. 70-75 percent of the total market. The top five foreign suppliers to the Russian healthcare market are Germany (46%), United States (24%), Japan (9%), Italy (5%), and France (5%).

Some 90 percent of Russia's domestic production of medical equipment and devices is manufactured at 660 enterprises having federal licenses for the production of medical equipment and devices, including 220 plants which are primarily dedicated to the defense industry. The Ministry of Health has approved over 20,000 medical products and devices for use in treatment but only 12,000 of those are represented among the list of locally made products.

However, Russian medical equipment manufacturers are making progress in several traditional and developing segments of medical equipment manufacturing, such as electrocardiographs, patient monitors, X-Ray and fluorography devices, anesthesia, sterilization and pulmonary equipment, ultrasound scanners, devices and instruments for endoscopy and laparoscopy, and electrosurgical instruments. Stronger domestic positions were also achieved in emergency vehicles, operating lighting systems, surgical instruments, home healthcare products, orthopedic devices, ophthalmic products, test kits, polymeric and glass medical products, disposable syringes, IV solutions and sets and other disposables in 2005.

Best Prospects/Services Return to top

Despite recent breakthroughs and the fact that locally made medical equipment is 2-4 times less expensive than their imported competition, Russian production still lags behind the majority of developed countries. Thus, Russia is still dependent on imports from a number of countries in a significant number of medical equipment industry sub-sectors, especially those requiring significant investments in R&D, innovative technologies, and automation. The best prospects for medical equipment include:

- modern computerized diagnostic equipment,
- computer and X-Ray tomographs, angiography systems,
- resuscitation and functional diagnostic equipment,
- implants and prostheses,
- surgical and endoscopic equipment, headlights for surgeons,
- robotics clinical laboratory systems for express microanalysis,
- telemedicine complexes,
- hospital equipment and supplies,
- operational room equipment,
- artificial kidney complex components (oxigenerators and dialyzers),
- hospital beds,
- advanced home healthcare equipment and supplies, and
- significant amounts of medical supplies and disposables, including polymeric packaging for IV solutions.

Opportunities Return to top

Recent reforms in healthcare have created opportunities for U.S. medical equipment suppliers. In November 2005, President Putin announced that healthcare is one of the four key national projects, along with education, housing and agriculture. One important promising development is the growth of healthcare funding through massive federal investments and the development of health insurance systems. At the moment, the two major state sources of healthcare funding -- mandatory insurance funds (30 percent of total funding), and spending supported by federal and regional budgets (70 percent) – do not completely cover all healthcare expenses. Private healthcare insurance programs' coverage is approximately 5 percent of the population. According to the long-term reform plans, mandatory insurance funds will serve as the main source of healthcare funding, providing transparency and control over cash flow within the system. There is also some discussion about shifting to private insurance plans in the long term.

The first reform of healthcare funding, introduced on January 1, 2005, was the implementation of a "monetization of health benefits" for certain categories of the Russian population, mainly the disabled and elderly. This program is currently represented by the acronym "DLO" which translates as Additional Drug Provision. Another commonly used name for it is LOL (Subsidized Drug Provision), which is actually a first attempt to establish a system of insured drugs. Other recent fiscal improvements are strengthening the primary care system through wage increases for district physicians and paramedics, massive support for vitally important diseases such as AIDS, tuberculosis and diabetes, increased funding for certain high-end surgeries and re-equipping 10,000 primary care municipal clinics with new medical equipment and a quadrupling of expenditures for high-end medical treatments. Recently, the Russian government announced that it plans to spend approx. $1.1 billion in the near future to buy medical equipment for 11,000 medical establishments.

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www.roszdravnadzor.ru: Federal Service for Control Over Healthcare and Social Development

www.regmed.ru: Federal State Enterprise Scientific Center for Testing Medical Products

www.crc.ru: Center for Sanitary and Epidemiological Norm-setting, Hygienic Certification and Expertise of the Ministry of Health and Social Development

www.rmbc.ru: Research, Marketing, Business, Consulting, a consulting and market research company specializing in the pharmaceutical market

www.pharminform.ru: Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version.

Drugs & Pharmaceuticals #6

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(All figures in USD millions)

	2003	2004	2005
Total Market Size**	3,800	5,000	6,200*
Total Local Production	1,300	1,950	2,400*
Total Exports	209	194	300*
Total Imports	2,291	2,856	3,500*
Imports from the U.S.	190	220	250*

(Source: Federal Customs Service, Federal State Statistics Committee)
* Estimates
** The figures for the total market are in wholesale prices

Russia has a growing pharmaceutical market with most major Western drug manufacturers already represented in the country. In the last ten years, the total volume of the market increased 9 times. Annual growth in this sector is expected to continue to grow at around 18-20% per year for the next five years, driven by rising incomes, consumer spending, increased efficiency in domestic distribution and increased government funding for drugs. According to Pharmexpert, a leading pharmaceutical market research company, the total market grew by 18 percent in 2004 to $3.9 billion in manufacturers' prices. At the same time, the total market was estimated at $5 billion in wholesale prices and $6.35 billion in retail prices. The market is estimated to have grown to $7 billion in retail prices in 2005.

The Russian pharmaceutical market is dominated by generics. Out of 13,000 pharmaceuticals, which are currently registered in Russia, 78 percent are generics. The majority of the population can still only afford inexpensive low-efficiency generic drugs. As a result, the Russian population's consumption of drugs is 9-12 times lower than in Western countries. Average personal spending on drug consumption remains at a remarkably low $44 per person a year with the average price of drugs in Russia being 7-10 times less than comparable medications in the West. According to the Drug-Store Monitoring Group, the average price of over-the-counter drugs in Russia in 2004 was only a little more than one dollar -- $1.04.

The Russian pharmaceutical market consists of two large segments: the retail pharmacy market and the hospital market. The pharmacy sector accounts for almost 80 percent of the total market while the hospital market accounts for the remaining 20 percent. The hospital market includes mainly relatively inexpensive generic drugs while the pharmacy market also features higher-end brand name drugs. The rates of growth of the hospital market remain lower than that of the pharmacy segment since purchases for hospitals are mainly financed from federal and regional budgets. According to the law, purchases for public hospitals are to be done through open tenders. However, the volume of purchases through tenders has been relatively small. The tenders that do take place tend to be non-transparent with only the larger national-level distributors able to participate effectively in them.

According to the April 2004 edition of Remedium magazine, over fifty percent of total domestic output is controlled by 10 large manufacturers, including ICN Pharmaceuticals, Otechestvennye Lekarstva, Microgen, Pharm-Center, Pharmstandart, Ferein, Veropharm, Nizhpharm, Akrikhin, Moskhimpharmpreparaty, and Vektor Medica. Besides the production of generics, domestic pharmaceutical producers specialize in the tableting and packaging of drugs made from imported substances. From 85 to 90 percent of all the substances used in pharmaceutical production are imported from Western Europe, China and India.

The Russian pharmaceutical market is dominated by imported pharmaceuticals, which cover about 60 percent of the total volume. In 2004, total imports amounted to about $2.9 billion. About 63 percent of the total imports come from Western Europe, the United States, Canada and Japan. Twenty-five percent came from Eastern Europe, while the remainder came from former Soviet republics, Asia, Australia and Latin America.

According to different estimates, there are 4,000 registered distributors of pharmaceutical drugs in Russia but we estimate that only 700 distributors are major players in the market. This concentration of the distribution sector has been growing and is now approaching that of developed countries. The share of the three largest distributors is 40 percent of the total market, which is very similar to the level of concentration in Spain and Belgium, higher than in Greece, but still lower than in England and France. The leading distributors are Protek, CIA International, ROSTA, Biotek, Shreya Corporation, Apteka-holding, Katern, and Moron.

Distributors operate vast networks of contacts and work to control retail distribution channels. Drug manufacturers prefer not to work with retail pharmacy networks and pharmacies directly, relying instead on distributors in promoting their products to retail outlets. In recent years, increasing portions of health and cosmetic goods have also begun being sold through pharmacies. The assortment of products sold through pharmacies has increased from 2,000 to 8,000 items in the past few years. Large cosmetic manufacturers use the same strategy in marketing their goods as drug manufacturers: they seldom work with retail outlets directly and rely, almost exclusively on distributors.

The number of pharmacy networks and member-pharmacies has been growing rapidly. The overall number of pharmacies and kiosks is 59,000. Leading pharmaceutical networks include Apteka 36.6, O3, Farmakor, Natur Product, Rigla, Biotek, Doctor Stoletov and Implozia.

Best Products/Services Return to top

The Russian pharmaceutical market presents good opportunities for Western drug manufacturers especially in the high-end quality product segment. Best prospects for U.S. exports include those related to cardiovascular problems, cancer, asthma, neurological and hormonal problems, anti-AIDS drugs, insulins, antibiotics, analgetics, vitamins, vaccines, and psychotropic medicines. Aside from painkillers, antibiotics and vitamins, the top drugs by sales in Russia include medicines for heart and blood conditions, diabetes and liver problems. Another promising sub-sector is biologically active food additives. The total market of biologically active food additives was $2.2 billion in 2004.

Opportunities Return to top

The Russian pharmaceutical market presents good opportunities for Western drug manufacturers especially in the high-end quality product segment. Recent reforms in healthcare funding and specifically, the introduction of the DLO system (also known as the monetization of benefits for the disabled) and LOL (Subsidized Drug Provision) have been the main driving forces of this market in 2005 pumping into it about $1.8 billion of federal budget money. The government plans to spend an additional $5 billion on healthcare in 2006-2007, a significant portion of which will go to subsidized drugs.

DLO is a first step to establishing a healthcare insurance system covering purchases of drugs and providing access to quality medicines.

The major challenges in this sector are a lack of transparency in the registration and certification systems as well as inadequate IPR protection and a large percentage of counterfeit medicines. According to different analysts, counterfeit drugs currently represent from 7 to 12% of the market.

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www.roszdravnadzor.ru: Federal Service for Control Over Healthcare and Social Development

www.regmed.ru: Federal State Enterprise Scientific Center for Testing Medical Products

www.crc.ru: Center for Sanitary and Epidemiological Norm-setting, Hygienic Certification and Expertise of the Ministry of Health and Social Development

www.remedium.ru: Magazine for the Russian pharmaceutical market

www.rmbc.ru: pharmaceutical market research company

www.aipm.org: Association of International Pharmaceutical Manufacturers (AIPM)

www.pharminform.ru: Consulting firm, Pharminform, specializing in assistance with registration and certification of medical equipment and pharmaceuticals. The site has an English version

www.pharmvestnik.ru: Major Pharmaceutical Industry periodical

Computer Hardware & Software #7

Overview

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(All figures in USD millions, $1 = R 28.00)

	2003	2004	2005 (estimated)
Total Market Size (computers & peripherals)	3370*	3930*	4500
Total Local Production	2600**	2800**	3500
Total Exports	40	54	60
Total Imports	602	967	1000
Imports from the U.S.	56	57	59

(Note: The above figures are based on Russian Customs and U.S. Department of Commerce data. *RosbusinessConsulting estimate, **Commercial Service estimate)

Russia represents a growing and dynamic market for IT industry suppliers. The Ministry of Telecommunications estimated the IT market at $9.1 billion at the beginning of 2005. The rate of growth is strong, with recent figures showing an increase of 25% for 2005. This growth is due to a favorable economic situation and high demand in the government and corporate sector including oil and gas, metallurgy, finance and insurance, telecommunications and retail. Many major U.S. companies are already present in the market; and their products are available either directly or through representatives or distributors.

At the end of 2004, the total number of computers in Russia exceeded 15 million with a penetration rate of 10%. The number of regular Internet users is over 18.5 million and is forecasted to reach 35-40 million over the next 6 years. The software market was estimated at $1.4 billion in 2004 and is growing at an annual rate of 35%. The true demand for software is difficult to determine due to the high level of pirated software. Industry sources estimate that up to 85% of all software is pirated. Russian law enforcement is beginning to become more engaged in copyright enforcement, but this has not yet had a noticeable impact on the availability of pirate CDs, DVDs or computer software. In 2005 the market for outsourcing software services was estimated at 1 billion. This market sector is maturing and new entrants will likely face serious competition from long-established companies.

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The main trends in 2005 were a sizable increase in government purchases, expansion to Russia's regions and strong growth in mobile office sales. Imports account for 13% of Russia's personal computer market, while peripherals, networking and larger system hardware are dominated by imports.

Continuing growth in the number and purchasing power of small and medium-sized private enterprises is driving demand for legally imported operating systems, software application packages and enterprise management software. The best opportunities for sales of U.S. manufactured hardware appear to be: data storage systems, networking equipment, PDAs and Internet mobile technology.

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The computer market is driven mainly by new investments from the federal government into special economic zones and its new IT concept adopted at the end of 2004. Computer hardware, personal peripherals, software and IT services are growing steadily and play an important role in the Russian-U.S. services trade because most high-tech equipment is imported. Growth is expected to continue due to a favorable economic situation and high demand in the corporate and government sectors.

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http://english.minsvyaz.ru/enter.shtml: Ministry of Information Technologies and Communications of the Russian Federation

http://www.ejkrause.com/events/3206.html: Svyaz Expocomm Moscow 2006

Aircraft Parts #8

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	2003	2004	2005 (Jan – Sept)
Total Exports HS 8802 ** Aircraft & Parts ($ million)	2,836	1,315.9	N/A
Total Imports HS 8802 Aircraft & Parts ($ million)	65,770 (est)	89,740 (est)	N/A
Imports from the U.S.	25,471	71,739	89,014

(Source: Federal Statistics Service, $1 = R 28.00; Office of Trade and Industry Information, U.S. Department of Commerce*)*
* U.S. Commercial Service estimate.
** Consists mainly of military aircraft, jet fighters, helicopter, parts & components.

Russian airlines continue to experience growth in passenger and cargo transportation. In 2004, Russian airlines transported 34 million passengers and 655 thousand tons of cargo. While the Russian traffic market is rapidly developing, it remains in certain sectors relatively immature with strong potential for growth in both passenger and cargo sectors. IATA forecasts that in 2006-2007 Russia's civil aviation market will experience annual growth rates of 5.8%. Four major commercial airlines – Aeroflot, Sibir (S7), Pulkovo and UT Air – carry about 15 million passengers a year. Aeroflot dominates the international market, while in the domestic market it faces competition from the others. Below are the most recent figures on the passenger flow for five major Russian airlines (provided by the airlines).

Major Russian Airlines (statistics for January – November, 2005)

Company	Number of passengers	Cargo (in tons)	Fleet
Aeroflot	6,239,000	133,100	90
Pulkovo	2,666,689	9,337.9	44
Sibir (S7)	3,750,000 (2004)	23,000 (2004)	50
UTAir	1,712,000	N/A	N/A
Transaero	1,452,610	14,255.71	16

The full list of Russian airlines is available through www.polets.ru.

According to 2004 statistics, the Russian fleet is comprised of 3,830 aircraft and 1,967 helicopters, with most aircraft operating since Soviet times. According to the Federal State Statistics Service, about 50% of the Russian aircraft fleet has been in service for 15 to 30 years - 3.5% have been operating more than 30 years. By 2015 around 80% of the fleet will have exhausted its service life. The majority of aircraft needs upgrading or replacement, including replacement of engines and avionics. Over 1,600 aircraft in service do not comply with existing ICAO noise standards*.* Only a few types of the existing Russian aircraft (Tu204, Tu214 and IL-96-300) meet Stage-III noise standards currently in effect in EU countries and the United States. Further introduction of the

Stage-IV noise standards will require heavy expenses by airlines in order to comply with new requirements. Moreover, under new EU regulations that began on January 1st, 2005, aircraft that are not equipped with EGPWS ground collision equipment will not be allowed to fly to European airports. However, the Russian Ministry of Transportation reported that it had negotiated a one-year extension period. Only about 2% of Russian aircraft are equipped with this system and, according to industry experts, 300 to 400 aircraft must be equipped. One of the major delaying factors cited by Russian carriers is cost. The cost of fitting a ground collision system to a Russian aircraft (Tu-154 or IL-96) is estimated to be $50,000-100,000 per aircraft.

The Ministry of Transport estimates that the Russian civil aviation sector demands from 2005-2010 will exceed 530 aircraft, including at least 180 new helicopters, 164 long-range aircraft and 146 regional aircraft (Source: “Vozdushnyy transport”). According to the Ministry of Industry and Energy, Russian manufacturers intend to build 135 new generation aircraft including IL-96 and AN-148 between 2005-2008. This so-called “start order” will be financed by the government through two leasing companies, Ilyushin Finance and Finance Leasing Corporation (FLC), and is reportedly the result of joint analyses performed by leasing companies, airlines and ministries.

Russian airlines and the Russian aviation industry are taking more immediate steps to resolve the problem of obsolete fleets. For example, Aeroflot wants to acquire 50 aircraft in the next five years in a special tender competition to renew its fleet and modernize flight systems. The first such Aeroflot tender resulted in the purchase of seven new A321-200s medium range aircraft from Airbus. Another tender for 22-28 long haul aircraft was released last summer and will reportedly be decided by March 2006.

Russia’s most ambitious national aviation project is a new short-range aircraft called the Russian Regional Jet (RRJ). In December 2005, Aeroflot signed the first contract for 30 RRJ 95 aircraft valued at $820 million. The RRJ will incorporate modern technology provided by U.S. and European component producers. More information on the RRJ project partnerships can be found at:
http://www.scac.ru/su/export/en/projects/rrj_family/History.html.

Russia has traditionally possessed a sizeable aviation industry. Today, Russia’s domestic industry employs around 500,000 people in about 300 companies and research and engineering institutes. It suffers from a lack of financing for aircraft construction and is in need of significant restructuring. For a number of years, the Russian Government has been discussing possible measures to revitalize the industry, including consolidation. In February 2005, Prime Minister Mikhail Fradkov approved the idea of establishing a national aircraft-building company, which will consolidate Sukhoy, MIG, Ilyushin, Irkut, Yakovlev and Tupolev. At the first stage, participants will form a public-private consortium and a management company, which will be called the Unified Aircraft Manufacture (OAK). The government share in the management company will be from 25.5 to 51%. According to the Ministry of Energy and Industry, the long-term goal of the OAK is to become one of the world’s leading players, to reach a minimum return of $6 billion and, by 2015, to match the sales volume of Airbus, Boeing, Bombardier and Embraier. It is planned that OAK will first produce 30% civil and 70% military aircraft. Eventually 50% of production will be civil aircraft.

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Russian airlines publicly complain that the restrictions on their ability to acquire aircraft negatively impact their operations and prevent them from being competitive in the international market and from providing quality services to passengers. Although sales are severely constrained by high import tariffs of 20% plus VAT of 18% on aircraft and parts, for major Russian airlines the necessity to update their fleet is beginning to outweigh the prohibitive nature of the tariff as is witnessed by a number of recent purchases by Russian carriers of western aircraft. Additionally, a section of the new Customs Code, which came into effect at the beginning of 2004, allows purchasers of foreign aircraft to spread the tariff payment over almost 34 months, making it less of an obstacle to imports. The Russian Government is considering lowering import tariffs on aircraft where there is no Russian equivalent. If import duties for aircraft are lowered, significant opportunities will arise for supply of aircraft, particularly used aircraft, spare parts, support and maintenance.

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The Russian Government and industry representatives are looking for broader cooperation with foreign firms in order to revitalize their domestic industry and integrate it into the global aviation industry. This includes participation in significant cooperative projects and further development of new generations of Russian aircraft able to compete in fuel-efficiency and able to meet the demands of international noise standards.

As part of its long-term plan to resurrect the domestic aircraft industry, the Russian Government is supporting the development of a locally produced Russian Regional Jet. In March 2003, the Russian Aerospace Agency selected Sukhoi to work on the Russian Regional Jet project jointly with Ilyushin, Yakovlev and Boeing. There are plans to build the airplane in Russia with the intention of marketing it both in Russia and abroad. The new jet will have three modifications, seating 60, 75, and 95 passengers. Boeing is planning to assist in the design, marketing and after sales support of the airplane. Current estimates are that imported content in these planes may initially exceed 40 percent.

Some partnership agreements have been established with European and U.S. firms mainly in the area of small component manufacturing. Such cooperative projects with foreign companies could provide capital needed to sell newly designed aircraft in domestic and international markets. However, limiting this potential is a 1998 law that restricts foreign ownership in aerospace companies to 25%. Currently the Russian Government is considering lifting the limit for foreign ownership to 49%. Over the long run, the Russian market presents significant opportunities for U.S. aerospace trade and investment. U.S. commercial aircraft and U.S. aircraft makers (such as Boeing, United Technologies, General Electric, Lockheed Martin, and Raytheon) are engaged in joint production projects and component supply.

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http://www.avia.ru/english: Russian Aviation News & Information Server

http://www.airshow.ru/etable.htm: International Aviation & Space Salon www.rosaviaexpo.ru: Rosaviaexpo

www.scac.ru: Sukhoi Civil Aviation

http://www.polets.ru: A Listing of Russian Airlines

Agricultural Machinery #9

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(All figures in USD millions, $1 = R 28.50)

	2003	2004	2005 (estimated)
Total Market Size	1050.4	1200	1300
Total Local Production	682.6	695	750
Total Exports	88.4	90.0	135.1
Total Imports	374.1	400.0	532.4
Imports from the U.S.	34.4	40.0	49.6

(Note: The above statistics are unofficial estimates based on Russian Customs data and the Russian Statistics Committee for products under the following HS Codes: 843320, 843351, 843352, 843353, 843359, 843390, 870120)

A general boom in consumer spending has also translated into increased demand for a range of food and beverage products. This in turn has put pressure on the agricultural sector, which is in dire need of reform and modernization, to meet this increased demand and has created the need for a variety of agricultural machinery. The Russian economy overall suffers from a lack of adequate financial resources to fund purchases of machinery and equipment, and the agricultural sector is no exception. While recently more financial resources have become available for purchases of agricultural machinery and equipment, there is still a huge unmet demand for such equipment. It is estimated that the sector needs thousands of basic units. According to the Russian Ministry of Agriculture, in November 2005 Russia had 603,000 tractors, 210,000 cultivators, 260,700 seeders, 40,300 forage harvesters, and 156,600 combine harvesters – on average 50% less than total demand. In addition to this tremendous shortage of equipment, a majority of the machinery that is currently operational has a fairly high (approximately 80%) rate of deterioration. According to industry analysts, the annual market demand in new agricultural machines and equipment is approximately $3 - 3.5 billion.

Altogether, it is estimated that this sector is short 180,000 machines and that 50,000 units are inoperable. Additionally, within the next two to three years Russia will have to discard approximately 20,000 – 25,000 units due to the fact that they will reach the end of their useful life. It is estimated that Russian farmers will need approximately 20,000 combines and 50,000 tractors per year for the next five years.

Currently, Russian combine and tractor manufacturers are working at 5-10% of capacity. The industry has not recovered from the crisis of the mid-nineties when production of agricultural equipment fell tenfold. Since that time, there has been considerable consolidation within the industry and at present two large domestic firms, Agromashholding and Rostselmash (Rostov-on-Don), manufacture approximately 90% (about 7,500 units) of all combines in Russia. In order to compete with foreign suppliers, Russian producers need to develop a full range of better quality agricultural equipment. Recently several leading producers introduced new models of tractors and combines. However, the industrial base and financial resources for the creation of competitive, universal agricultural equipment producers remains limited in Russia.

In 2005, a number of Russian and German companies established joint ventures to assemble agricultural machinery in Russia such as Claas (Krasnodar), Kirovets-Landtechnik (St. Petersburg), and Eurotechnika (Samara).

In December 2005, in its efforts to protect domestic manufacturers of agricultural machinery, the Russian government established new customs duty rates for combine harvesters and forage, at no less then 100 Euros per KW of engine capacity. The new tariffs are proposed to be in effect for 9 months.

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- Combines and other harvesting equipment: such equipment has been a traditionally strong import item for Russia.
- Cultivators and other soil preparation equipment, including plows, harrows, cultivators, seeders, and fertilizer spreaders.
- Agricultural tractors.
- Used and refurbished machinery only if the supplier is able to ensure reliable service and a supply of spare parts.
- Sales to food processing companies may also provide some opportunities where financially healthy Russian companies are trying to expand to satisfy growing demand for domestic food. For example, increased sales may be possible in the areas of grain processing equipment, fruit and vegetable processing equipment, dairy livestock breeding, swine and poultry production.

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Despite market demand, opportunities for imported farm machinery will be limited unless new sources of financing are found. Some import sales will be made to a few financially sound buyers or those receiving help from regional governments. Large sales, however, will probably be possible only for sellers who are able to provide financing, as well as a support system for purchases that go substantially beyond simple direct sales, or are willing to accept barter payments. Several major U.S. companies have proposed comprehensive equipment, financing and service projects, which could significantly increase farm machinery imports into Russia. Export credit guarantees such as those available from the U.S. Export-Import Bank can play a positive role in such projects.

In 2005, a number of major foreign investors – Bunge, Glencore (Switzerland), Louis Dreyfus, Bonduelle, CECAB (France), and Barilla (Italy) increased their activities in the Russian agricultural market. Continued investments into agricultural production in Russia will create additional opportunities for agricultural and processing equipment and machinery suppliers.

U.S. firms are advised to exhibit at Russian trade shows, as they are a powerful marketing tool and reassure Russian buyers that the company is committed to maintaining its presence in the Russian market. Also, companies occasionally make substantial floor sales at Russian exhibitions.

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www.mcx.ru: Russian Ministry of Agriculture

www.apkvvc.ru/engaut.htm: Golden Autumn, Russian Agricultural Week Trade Show

http://www-eng.expocentr.ru/expo: Agroprodmash Trade Show

Construction Equipment #10

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(All figures in USD millions)

	2003	2004	2005 (estimated)
Total Market Size	2,500	2,700	3,000
Total Local Production	1,500	1,400	1,300
Total Exports	N/A	N/A	N/A
Total Imports	1,000	1,300	1,700
Imports from the U.S.	200	240	300

(Since reliable statistics in Russia are still unavailable, the above figures are rough estimates based on interviews with industry experts.)

For the past 6 years, the Russian construction market has been growing at an average annual rate of approximately 10%. The size of the construction services market for 2005 is estimated at $60 billion. The Russian Federal Government and regional governments invested $4.5 billion in important infrastructure and housing projects. Private investors actively increased their operations in new housing and commercial real estate projects.

Consequently, the market for construction equipment has also been growing. According to the Federal Construction Agency (Gosstroy), construction company assets of capital equipment have depreciated 47% and the average age of equipment used in the construction industry is approximately 17 years old. Local manufacturers suffer from a lack of modern technologies, insufficient investment in R&D and modernization, and poor management, and therefore are unable to meet the demand for quality equipment. As a result, the import market grew more rapidly than the total market. These trends are expected to continue in the next few years.

Russia has a large potential market for the U.S. construction equipment industry. Traditionally, European manufacturers have been better represented in Russia than American firms. However, given the Dollar/Euro exchange rate, Russian importers of construction equipment have expressed an increased interest in U.S. suppliers.

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Tower cranes, excavators, bulldozers, backhoe loaders, crushers and screens, concrete mixers and concrete pumps, asphalt pavers (new and used), spare parts and equipment leasing services for contractors.

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U.S. equipment is well known in Russia for its excellent quality and reliability. U.S. manufacturers can further improve their market share by offering state-of-the-art technology and products and by employing reputable agents and/or distributors. Price, reliability, availability of sales financing and after-sale service continue to be the main competitive factors limiting equipment exports to Russia.

Opportunities also exist in the licensing and transferring of modern technology to Russian equipment and component manufacturers.

Component supplies to Russian OEMs may also be favorable. Aftermarket sales of replacement parts are dynamic, with high customer receptivity to U.S. products. There are no known trade barriers affecting imports of U.S. construction equipment.

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www.gosstroy.gov.ru: The Federal Construction and Housing Agency (Gosstroy)

www.mst-expo.ru: Construction and Material Handling Equipment Show

www.doroga-expo.ru: Russian Road Equipment Show

Agricultural Sectors

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Russia is poised to purchase $15 billion in food and agricultural products from abroad in 2005, including roughly $1 billion from the United States. Retail sales grew an impressive 12 percent in 2004 and reached $198.3 billion, of which 44 percent were imported products. Retail outlets have started to expand aggressively into the regions providing new potential markets for quality, imported goods and prospective venues for marketing programs. The HRI sector grew at a fast pace as well, and experts report that 90 percent of food prepared in restaurants and cafes in Western Russia is imported. Moscow consumers continue to spend 70 percent of their incomes on consumer goods, which is the highest ratio in Europe (Interactive Research Group). Exports of U.S. agricultural products to Russia are growing due to the revolutionary changes in Russia's retail and food processing sectors. In FY 2005, U.S. agricultural exports to Russia grew to nearly $943 million, up 24 percent year-to-year, continuing to rebound from a downward trend from 2001 to 2003 when U.S. exports dropped due to a series of market access barriers.

The local food processing industry has become one of the most dynamic sectors of the Russian economy, with an average increase of 15-20 percent per year. Processors are willing to meet international quality standards and focus on quality ingredients. Russia is one of the fastest growing retail food sales market in the world, with the potential to again double in size by 2008, just as it did since 2001. With this growth and the participation of multinational retailers, the retail market has become more competitive, and quality now counts even more in purchasing decisions. In fact, suppliers now face penalties for failing to provide either the agreed quantity or quality to retailers. This creates a natural advantage for U.S. high quality consumer ready products, especially poultry, meat, snacks, nuts, fresh and frozen fruits and vegetables, wine, beer, seafood, among many others.

Russia's imports from the United States, while dominated by poultry, have begun to diversify. Furthermore, official statistics underreport trade due to heavy transshipments to Russia through Europe, particularly for fresh fruit and wine/spirits. Food ingredients, tree nuts (such as almonds), seafood, pork, and fresh fruit all grew impressively in 2005 and have a bright future.

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1. Poultry

U.S. chicken leg quarters continue to dominate the Russian import market for poultry meat. In June 2005, the U.S. and Russia signed a new meat agreement, which establishes a tariff rate quota for poultry products. This new agreement will run from 2006-09 with a set amount of 1.131 million metric tons (MT) for 2006 with a yearly increase of an additional 40,000 MT per year. For 2005, the total volume of the quota for the United States is 811,300 MT and 841,300 MT for 2006.

2. Beef

In 2003, Russia introduced new tariff rate quotas (TRQs) for beef under codes 0201 and 0202. Although the United States does not ship beef under these categories due to the current BSE-related trade ban, when the market reopens, US exporters can be expected to take advantage of growing demand in the HRI sector. Since the ban was put in place two years ago, Russia's restaurant sector has exploded, with a new opening in Moscow every week. Other cities such as St. Petersburg and the regions are also experiencing growth in the HORECA sector. Demand for quality beef and less expensive beef cuts such as livers is rising, and sales of upwards of $75 million are possible.

3. Pork

Despite a decline from pre-1998 crisis levels, Russia is one of the top ten export destinations for U.S. pork. In the near future, high-quality imported pork is likely to take advantage of the growing demand in the retail sector. In June 2005, the U.S. and Russia signed a new meat agreement, which establishes a tariff rate quota for pork products. The new agreement will run from 2006 through 2009 with a set amount of 476,100 MT for 2006 and a yearly increase of roughly 10,000 MT per year. For 2005, the volume of the quota set aside for the United States is 53,800 MT and 54,800 MT for 2006. U.S. suppliers are also facing extremely tough competition from Brazil due to very competitive pricing. The best export opportunities in the near future will include unprocessed and semi-processed pork products for further processing (i.e., hams and picnics). These products are popular because Russian processors are keen to locate sources of inexpensive raw materials for further processing into sausages and other products.

4. Food Ingredients/Food Processing

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25 percent in 2003, in 2004, the industry grew by 18 percent and valued at $38.4 billion. Due to the growing preference for Western style food and beverages, rising consumer incomes, and a significant population of 143 million, Russia is an excellent prospect for exporters to supply food processors. Consumer markets are not yet saturated with products. These trends are expected to continue, keeping prospects bright for U.S. exporters. Most local food processors trying to compete in the market are quality-oriented, rather than price-oriented ingredient consumers. Many companies report that raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing available from Russia domestically are not sufficient to satisfy their needs in the future.

5. Edible Tree Nuts

Domestic consumption continues to expand for a wide variety of edible nuts, including almonds, hazelnuts, and pistachios. Nuts are popular as both sweet and salty snacks. In addition, the fast-growing confectionery industry uses nuts in a variety of chocolates and baked goods. In particular, imports of U.S. almonds are expanding sharply, although direct import figures do not reflect the actual level as large volumes of U.S. almonds are also imported through Western Europe. Comparison of the total Russian import volume of January-September 2004 and the same period of 2005 shows import growth of more than 55 percent. In 2004, imports of tree nuts valued $ 31 million. Other nuts are also gaining popularity and trade sources indicate interest in pecans and other U.S. nuts.

6. Fish and Seafood

As Russian consumers are becoming more concerned about their health, fish consumption is growing. In 2004, fish imports reached about $700 million, showing 60 percent growth from 2003. U.S. fish and seafood product exports will continue to grow and may reach $30 million in 2005, up from $23.1 million in 2004. High-quality fish, in particular for retail sale and in the hotel/restaurant sector, are growing in demand. Due to Russian industry's strong export focus, the domestic retail market is growing and relies heavily on imported fish and seafood.

7. Fresh Fruit (apples, pears, grapes, grapefruit)
According to the World Trade Atlas, in 2002, Russia imported 2.4 million tons, in 2003 3.2 million tons, in 2004 3.74 million tons of fruit, growing more than 15 percent each year. Fruit trade value in 2004 reached a record $1.6 billion, 40 percent more than in 2003. Russia is the world's largest importer of fresh fruit among the emerging markets, and is ranked sixth globally in fruit imports behind only the wealthiest nations, the United States, United Kingdom, Germany, Japan, and Canada. Lack of marketing and brand awareness in the fruit industry will benefit exporters to Russia who are willing to start advertisement activities in Russian stores and grocery markets. While U.S. exports to Russia of fresh fruit are quite small, at current growth rates, with aggressive marketing, it may become a top-ten market in 2006. U.S. fresh fruit companies and trade associations exhibited at World Food Moscow in September 2005.

8. Wine
Fueled by stable economic growth over the last six years, Russia is one of the most rapidly growing wine markets in the world with an average 30 percent wine consumption increase per year. Although the majority of wine imports still come from CIS countries like Moldova and Georgia; Russian consumer preferences are changing. France accounts for close to 40 percent of wine imports from non-CIS countries. In 2004, French exporters invested nearly a million euros in promoting wine in Russia, which is three times their 2003 budget. The popularity of New World wines, from Chile and Argentina in particular, is growing steadily due to aggressive marketing campaigns. In a market that constantly thirsts after something new and trendy, U.S. wine exports to Russia have excellent prospects.

Other Products

In addition to the products described above, there is good market potential for a wide variety of other U.S. food and agricultural products, including: raisins; prunes; exotic juices (for retail and further processing); wine; wild rice; popcorn (especially microwave); prepared/canned foods (including private label); microwave foods; intermediate products for further processing (soy products, dried potato products, essential oils/flavorings, etc.); livestock genetics; and planting seeds.

U.S. Agricultural Exports to Russia, FY2002-2005*
(Selected Products, Million Dollars)

		2002	2003	2004	2005	CHANGE
	TOTAL	**724.4**	**512.1**	**760.3**	**942.7**	**24%**
1	**POULTRY MEAT**	**493.9**	**322.1**	**505.1**	**583.0**	**15%**
2	**TOBACCO**	**27.1**	**6.3**	**48.8**	**73.9**	**51%**

3	**FOOD INGREDIENTS**	**16.2**	**34.4**	**38.8**	**48.1**	**24%**
4	**RED MEATS, FR/CH/FR**	**85.3**	**60.2**	**31.8**	**74.1**	**133%**
	PORK MEAT FR/CH/FR	***12.8***	***4.6***	***9.0***	***32.6***	***262%***
	Hams, Shoulders, & Cuts	***2.3***	***0.9***	***1.2***	***18.8***	***1467%***
5	**TOTAL SEAFOOD**	**11.5**	**8.7**	**21.8**	**38.3**	**75%**
	FISH/SEAFOOD	***6.3***	***3.5***	***16.5***	***31.0***	***88%***
	SALMON WHOLE/EVIS	***0.6***	***0.4***	***2.3***	***3.7***	***62%***
	ROE/URCHIN/FISH EGGS	***3.8***	***4.7***	***2.5***	***2.0***	***-19%***
	SURIMI (FISH PASTE)	***0.9***	***0.1***	***0.6***	***1.6***	***184%***
6	**TREE NUTS**	**8.8**	**12.4**	**22.0**	**31.1**	**41%**
7	**GENERAL CONSUMER ORIENTED**	**6.2**	**22.3**	**25.9**	**22.8**	**-12%**
8	**FRESH FRUIT**	**2.5**	**1.6**	**2.4**	**11.0**	**353%**
9	**SNACK FOODS**	**2.7**	**6.7**	**13.6**	**9.4**	**-31%**
10	**PROCESSED FRUIT & VEG**	**5.8**	**4.2**	**5.9**	**4.3**	**-28%**
11	**PLANTING SEEDS**	**0.2**	**0.4**	**1.1**	**3.6**	**230%**
12	**PET FOODS**	**0.7**	**0.7**	**2.1**	**3.2**	**54%**
13	**WINE AND BEER**	**1.0**	**1.2**	**1.7**	**1.8**	**6%**
	All Others	**62.5**	**30.8**	**39.3**	**38.1**	**-3%**

SOURCES: U.S. Census Bureau, USDA FAS, U.S. Trade Database
* Note: Official statistics underreport trade due to heavy transshipments to Russia through Europe, particularly for fresh fruit and wine/spirits.

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U.S. exporters are invited to learn more about sales opportunities to Russia by writing USDA's Agricultural Trade Office at: atomoscow@usda.gov or by participating in the U.S. company pavilions at World Food Moscow in September 2006. For questions related to market access, agricultural policy, USDA's reporting program, and technical assistance, write USDA's Agricultural Affairs Office in Moscow, agmoscow@usda.gov. You may also contact USDA offices in St. Petersburg at: agstpetersburg@usda.gov and in Vladivostok at: agvladivostok@usda.gov.

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Chapter 5: Trade Regulations and Standards

Import Tariffs

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The following is a selection of tariffs for popular U.S. goods entering Russia. For more detailed information concerning tariffs, please refer to the "Customs Regulations and Contact Information" section below.

Commodity	Rate (%)
HS 02: Meat and edible meat products	5
HS 0207	25
HS 24 Tobacco and manufactured tobacco/Unmanufactured tobacco	5
- Cigars and Cigarettes	30
HS 28 Inorganic Chemicals	5
HS 38 Miscellaneous chemical products	5
HS 39 Plastics and Articles thereof	10
- Finished products	20
HS 73 Articles of iron and steel	15
HS 84 Nuclear reactors, boilers, machinery	5-20
HS 85 Electric Machinery	5-20
HS 87 Vehicles except railway and tramway	5-25
- Tractors	15
- Passenger cars new	25
- Used (depends on the age and engine displacement and varies from 0.85 Euro to 3 Euro for cubic cm)	
- Buses over 7 years (3 Euro for cubic cm of engine displacement)	
HS 8708 Auto parts	5
HS 90 Optic, Photo, Medical and Surgical Instruments and devices	5-15
Medical equipment	5

Changes in the Commodity Schedule were implemented in 2004 in accordance with the international obligations of the Russian Government to comply with HS codes and Russia's intention to enter the WTO. The new customs tariff schedule changed tariff rates for 140 categories of commodities lowering the tariff ceiling for 90% of the categories. Notable changes included the lowering of import tariffs for audio- and video-equipment and components from 20% to 15%, for fruits and vegetables from 10% to 5% and for sewing machines from 25% to 20%. Certain commodities are still regulated through seasonal duties and quotas.

In addition to tariffs, there are two types of charges applied to imports, the ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate was reduced from 20% to 18% effective January 1, 2004, with the exception of foodstuffs, pharmaceuticals and medical supplies for which VAT is 10% and is applied to the import price plus tariff plus excise tax. There are some exemptions to applying VAT. For example, resolution no.19 of January 17, 2001 provides a list of vitally essential medical equipment to which VAT is not applied. The excise tax applies to a number of luxury goods, alcohol and cigarettes and varies from 20% to 570%. The import duty on new passenger vehicles (1-3 years old) is 25%, to which is added an excise tax calculated based on horsepower.

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U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. The most common complaint voiced by U.S. companies is Russia's complex system of standardization. As explained in detail in the "Standards" section below, Russia's standards regime remains extremely complex due to its lack of clarity and overall redundancy. While the system has improved somewhat, U.S. companies are encouraged to obtain appropriate legal advice or assistance from experienced distributors or consultants.

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Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents: contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses if applicable, certificates of conformity and/or safety (see "Product Standards" below) certificates of origin if applicable, and documents confirming legitimacy of declarants/brokers/importers.

Exporters are required to complete an export declaration and, if necessary, present the appropriate export license at customs.

In addition, currency control regulations require issuance of a "passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

Free Customs Zones/Warehouses/Special Economic Zones

There are a limited number of free customs zones and warehouses designed to encourage investment in specific areas. Free customs zones and free warehouses are located in customs areas (airports, seaports, railway and truck terminals) and selected automobile factories. The Kaliningrad Special Economic Zone (SEZ) provides advantages to foreign exporters and investors. Almost all goods imported into the SEZ are exempt from import customs duties. Further, when imported goods are processed there with value added of at least 30% and then shipped to other parts of Russia they are exempt from import duties and quotas.

In November 2005, the Russian Government announced that they awarded six regions the right to establish Special Economic Zones (SEZ). The winners for establishing technological innovation zones were Zelenograd, a residential neighborhood of Moscow (microelectronics), Dubna, located in the Moscow Region (nuclear physics), St. Petersburg (information technologies and instrument making) and Tomsk (new materials). Industrial SEZs will also be established in the Lipetsk Region (household equipment and possibly furniture) and in Yelabuga located in the Republic of Tatarstan (aircraft components and chemical goods). The Russian Government has indicated that they will allocate roughly 8 billion rubles from the Federal budget to develop these zones in 2006 with additional funds being allocated, as appropriate, from regional budgets.

U.S. Export Controls

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The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of most commercial items. We often refer to the items that BIS regulates as "dual-use," since they have both commercial and military applications. Please note that even commercial items without an obvious military use may be subject to the EAR. Items with an Export Control Classification Number (ECCN) that are regulated for Chemical and Biological Weapons (CB), National Security (NS), Missile Technology (MT), Regional Stability (RS) or Crime Control (Column 1 or 2) purposes require a license from BIS for export to Russia.

Further information on export controls is available at http://www.bis.doc.gov/licensing/exportingbasics.htm.

BIS has developed a list of "red flags", or warning signs, intended to discover possible violations of the EAR. These are posted at http://www.bis.doc.gov/enforcement/redflags.htm.

Also, BIS has "Know Your Customer" guidance at http://www.bis.doc.gov/Enforcement/knowcust.htm.

If you have reason to believe a violation is taking place or has occurred, you may report it to the Department of Commerce by calling our 24 hour hot line at 1 (800) 424-2980, or via the confidential lead page at https://www.bis.doc.gov/forms/eeleadsntips.html

The EAR does not control all goods, services, and technologies. Other U.S. Government agencies regulate more specialized exports. For example, the U.S. Department of State has authority over defense articles and defense services. A list of other agencies involved in export control can be found on the BIS web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site at http://www.access.gpo.gov/bis/ear/ear_data.html.

For further details about the Bureau of Industry and Security and it's programs, please visit the BIS website at http://www.bis.doc.gov.

Temporary Entry

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Temporary entry of goods is allowed with full or partial relief from customs duties for a period of up to two years. The Customs Authority issues authorization for temporary entry of goods based on a written application submitted by an importer. The list of goods for temporary entry with full relief from customs duties and taxes as well as terms of such relief is regulated by the Russian Government.

Full conditional relief from customs duties is allowed when it does not affect the Russian economy in such cases as:
- temporary imports of containers, pallets, other types of containers and packages for repeated use;
- temporary imports of goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- if the purpose of temporary imports is international assistance.
- commercial samples, not for sale, used at trade shows and exhibitions*

All goods falling outside of this list are subject to partial relief only, as established by the Customs Code. Article 213 of the Customs Code provides for temporary import with a partial exemption from customs duties for 34 months when goods are classified as main production assets on the condition that such goods are not owned by the Russian entities using them in the territory of the Russian Federation. When partial relief from customs duties is applied, 3 % of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russia Federation.

In practice, many U.S. companies bringing in commercial samples have had problems with Russian Customs. Sometimes Customs demands that the importer pay a bond to cover any applicable imports duties if the goods are sold in Russia.

Also in regard to commercial samples, Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

For further information, please refer to the Russian State Customs Committee Website: www.customs.ru, or www.tks.ru

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Labels on food items must feature the following information in the Russian language: type and name of the product; legal address of the producer (which may be given in Latin letters); weight or volume of the product (if a food item is preserved in liquid – weight without the liquid mass); food contents (name of basic ingredients and additives listed by weight in decreasing order); nutritional value (calories, vitamins if their content is significant or if the product is intended for children or for medical or dietary use); conditions of storage; expiration date (or production date and period of storage); directions of preparation of semi-finished goods or children foodstuffs; warning information on any restrictions and side effects; and terms and conditions of use.

Labels on nonfood items must include the name of the product, the country of origin and the name of the manufacturer (which may be given in Latin letters), usage instructions, the main characteristics, rules and conditions for effective and safe use of the product, and other information determined by the state regulation body.

Prohibited and Restricted Imports Return to top

Import/Export of goods in Russia is carried out in accordance with the Federal Law on "Government Regulation of International Trade Activities" of 2003, which stipulates application of quotas, licenses and other temporary restrictions on export/import operations.

Import licenses are issued by the Russian Ministry for Economic Development and Trade or its regional branches, and controlled by the State Customs Committee. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many items:

- Alloys
- Carpets
- Color televisions (14, 21, and 25-inch)
- Combat and sporting weapons
- Ethyl alcohol
- Explosives
- Medicine
- Military and ciphering equipment
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Stones
- Strong poisons and narcotics
- Tobacco products Stones
- Vodka

To learn whether an import license is needed for a particular product, contact the Russian Ministry for Economic Development and Trade licensing department. (www.economy.gov.ru)

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The new version of the Customs Code, which complies with WTO requirements, was approved by the State Duma on April 25, 2003, signed by President Putin on May 24 of that year, and took effect on January 1, 2004. The new Customs Code introduced significant changes in customs clearance and customs control procedures. According to its authors, the Code was a significant improvement over the old one. It reduces the role of the state and does not allow the Russian Government or its agencies (including the Federal Customs Service (FCS) to create contradicting regulations and instructions. One intended improvement in the new Code is to reduce the length of time required for customs clearance from 10 days to 3 days. It also offers the possibility of advance declaration of cargo before its arrival at customs.

The important changes introduced by the new Code include:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts.
- Making possible the settlement of disputes with Customs authorities directly in a court of law.
- Establishing a definitive and comprehensive list of documents that must be submitted for Customs clearance.
- Limiting the maximum time for the Customs clearance process to 3 days compared to the previous allowed maximum of 10 days.
- Prohibiting the Customs authorities from refusing to accept a declaration that contains inaccurate information, if this information has no impact on the defrayal of Customs payments, or does not restrictions in foreign trade.
- Allowing clearance of goods through any Customs office.
- Providing urgent Customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media.

It appears as though after two years of working under the Russian Federation's new Customs Code, the government and business community have acknowledged that amendments are now needed. While well received by all parties concerned as a first step in 2003, most liberal and progressive provisions of the Customs Code proved to be difficult to apply. Additionally, customs practitioners have found that the Code, designed to meet WTO requirements, still leaves much to the discretion of customs authorities.

The monitoring of events in 2005 produced many examples of arbitrary practices of local customs officials, encouraged by ambiguities in the customs legislation. A majority of complaints received were in connection with the general delays in the clearance of goods and arbitrary valuation of goods. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

While Russian Customs still has many obstacles to overcome, there are examples of improvement under the New Code. For example, the New Code called for the implementation of a risk management system that was intended to expedite customs procedures. In the past year, local customs officials report considerable expedition of procedures and improvements in control, especially at border crossings. In seaports, risk management provided for an increase in the number of customs inspections of cargo and resulted in a rise of the identification of grey market operations and contraband shipments seized.

During 2005 the priorities for customs modernization included, improvement of customs regulations, implementation of IT systems and enhanced dialogue with market participants. There is also a clearer understanding of the continued need for customs to take effective action against significant levels of grey market practices and to implement effective control coordinated on a global scale.

In a country where clearing goods through customs can still be more art than science, and significant delays are still common, the new import structures are seen as taking

Russia a step further along the road to reduced barriers to foreign trade, conformity to world trade practices, and membership in the WTO.

Customs Valuation
The customs value is generally considered to be the CIF (cost-insurance-freight) price of the goods imported. A customs-processing fee is also levied. As of January 1, 2005, new customs processing fees were introduced in accordance with Chapter 33 of the new Customs Code. Customs duties are payable in hard currency or rubles at the current exchange rate. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be a sufficient proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents.

For further information, please refer to the Russian State Customs Committee Website: www.customs.ru, or www.tks.ru

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Despite positive changes in the last several years, the standards regime in Russia still lacks transparency. Russia continues to rely on product testing as a key element of the product approval process. Other types of product safety assurance, such as plant auditing, quality systems, and post market vigilance, are underdeveloped. Russia continues to adhere to redundant practices of further testing of internationally accepted certified products, which can delay entry of a variety of products into the country.

In addition, the former federal authority on standardization, Gosstandart, was restructured twice as part of a larger government reorganization begun in March 2004, which led to some uncertainty as to exactly who in the agency did what, further adding to delays in discharging its functions. The current authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology under the jurisdiction of the Ministry of Industry and Energy.

However, the old name for this agency, Gosstandart, remains in use. Affiliated with this new agency are 462 Technical Committees, comprised of research institutes, which develop standards. Russia has a three year plan for standards development that is published on the Federal Agency for Technical Regulations' website (www.gost.ru) which is currently behind schedule.

Standards Organizations

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Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers create a challenge to foreign companies attempting to certify products without appropriate legal advice or assistance from experienced distributors or consultants.

The Department of Technical Regulations and Metrology estimates that Russia must develop approximately 2,000 technical regulations by 2010. U.S. companies are recommended to work with reliable partners and consulting companies on registration and certification issues.

Standards Organizations In Russia:

The Federal Agency for Technical Regulations and Metrology
Grigory Iosifovich Elkin, Head
9, Leninsky Prospect
Moscow 119991 Russia
Phone: 7-495-236-0300
Fax: 7-495-236-62-31
E-mail: info@gost.ru, Secr_Elkin@gost.ru
www.gost.ru

Rostest Moscow
Russian Center for Tests and Certification
31 Nakhimovsky Prospect,
Moscow 117418 Russia
Phone: 7-495-129-1911, 332-6777,129-5936.
Fax: 7-495-124-9996.
E-mail: info@rostest.ru, www.rostest.ru

VNIIKI (Russian Institute for Comprehensive Information on Certification and Quality)
4, Granatny Pereulok
Moscow 103001 Russia
Phone: 7-495-290-5569
Fax: 7495-203-2598, 203-9517
E-mail: kpl@vniiki.ru, www.vniiki.ru

VNIIS (Research Institute for Certification)
3/10, Elektrichesky Pereulok
Moscow 123557 Russia
Phone: 7-495-253-7006, 253-0078
Fax: 7-495-253-3360
E-mail: vniis@vniis.ru, www.vniis.ru

Russian Standard (general representative of ROSTEST for North America)
115 Mendham Ave., Suite 1A
Hastings-on Hudson, NY 10706, USA
Phone: (914) 478-7557
Fax: (309) 276-0783

E-mail: mail@rosstandard.com, www.rosstandard.com

For Telecommunications Equipment:

Ministry of Information Technologies and Communications of the RF
Ms. Lyudmila Yurasova
Deputy Head of Federal Agency
7 Tverskaya Street
Moscow, Russia
Tel: 7-495-771-8573
Fax: 7-495-771-8734
E-mail: sertifik@ptti.gov.ru, www.english.minsvyaz.ru

For Pharmaceuticals and Medical Equipment:

Federal Service for Control over Healthcare and Social Development (Roszdravnadzor)
1 Birzhevaya Street
Moscow, 109012, Russia
Tel.: 7-495-298-1470
Fax: 7-495-298-5049
http://www.roszdravnadzor.ru

Registratura OOO
Ms. Oksana Kim, Commercial Director
21 Kashirskoye Shosse, Office 423
Moscow, 115446, Russia
Phone/Fax: 7-495-742-8222
Mobile: 7-903-514-7511
Email: oksanak@regmedpro.ru

Pharminform
Vladimir Makarov, Financial Director
3/5 Suschevsky Val
Entrance 1, Floor 6
Moscow, Russia
Tel.: 7-495-797-4963
Fax: 7-495-797-4963
E-mail: info@post.pharminform.ru, www.pharminform.ru

For Building and Construction Materials:

Stroikonsultant
24, Nakhimovsky prospect, Pavilion 6, 4
Moscow, 125057, Russia
Tel: 7-495-755-1501,
Fax: 7-495-779-1296
E-mal: snip01@mail.ru, snip_buh@mail.ru, www.snip.ru, www.gosstrov.gov.ru

NIST Notify U.S. Service
Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: http://www.nist.gov/notifyus/

Conformity Assessment

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In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures and some improvements have been made. In 1998 the Russian Government established a public information service for regulations covered by the Technical Barriers to Trade (TBT) Agreement in the World Trade Organization (WTO); however, technical difficulties have plagued this service and it has not been an easily accessible or reliable source of information. On July 31, 1998, new amendments to Russia's Law on Certification of Products and Services went into effect, which Russia claims generally meet requirements of the TBT Agreement. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products. The government has established a list of 200 products eligible for this procedure, which periodically changes. Russian standards and certifications bodies worked closely with the U.S.-Russian Business Council, the American Chamber of Commerce in Russia, and several U.S. Government agencies in order to become acquainted with international practice in this area and the concerns of international companies. As a result, approximately 35% of the 25,000 Russian standards now conform to international norms, and many deficiencies in the standards and certification process have been removed. The Russian Government is looking to harmonize 87% of their existing standards to international standards.

Russian officials claim that with adoption of the federal law "On Technical Regulations" which came into force on July 1, 2003, the certification situation has improved. The law was intended to change the existing cumbersome standardization and certification systems and to harmonize the Russian legislation with international standards. In addition, the intent was to establish a transparent system for adoption of standards and to reduce significantly the number of requirements and steps in the certification process for imported goods. The Government has established a 7-year transition period for technical regulations reform to be completed. Over this period, all mandatory standards requirements must be transformed into technical regulations, and remaining standards will become voluntary. This monumental task will require the development and enactment of several thousand laws and regulations. Current technical regulations will remain in effect until new ones have been developed and approved by the government, or until the end of the 7-year transition period.

LIST OF CERTIFICATION SERVICE PROVIDERS AND ACCREDITED LABORATORIES IN THE UNITED STATES:

Accreditation Velosi America, LLC
www.velosi-usa.com

Industry Specializations: Oil & gas, petrochemical and refining industries.

Information Handling Services Inc. (IHS)
www.ihs.com
Industry Specializations: Developing and implementing engineering, technical, and regulatory information solutions.

Nemko USA, Inc.
www.nemko.com
Industry Specializations: GOSTANDART certification, safety, electromagnetic compatibility and hygiene. NEMKO is the only lab in the U.S. authorized to conduct Russian hygienic testing. NEMKO also provides the Russian fire safety certificate.

Russian Standard, Russian Certification Center
www.rosstandard.com, www.rosintorg.com
Industry Specializations: Russian Standard represents Russian GOST-R certification authorities and the Certification Center of the Russian Ministry of Public Health.

TUV America Inc.
www.TUVamerica.com
Industry Specializations: Information technology, including telecommunications, computers, printers and other equipment. TUV can also offer manufacturers access to safety approvals, EMC testing and certification, and quality audits and certification to ISO 9001 and 14000.

TUV Rheinland
www.us.tuv.com/certify/russia.html
Industry Specializations: Information technology equipment, industrial machinery, household appliances and medical/scientific equipment. TUV Rheinland can also assist clients in obtaining Russian telecommunications certification, and in obtaining Gosgortechnadzor (GGTN), hygienic and other licenses/permits.

Underwriters Laboratories (UL)
www.ul.com
Industry Specializations: Information technology equipment (ITE), electrical-electronic apparatus, laboratory and measurement equipment, household/commercial appliances and hazardous location equipment. In addition to safety and EMC, UL can provide assistance in obtaining a Hygienic Certificate, "Fire Safety" Certificate, etc. through its Intermediate Applicant Service.

Product Certification

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Many products imported for sale into the Russian Federation are required to have a certificate of conformity issued by The Federal Agency for Technical Regulations. The Agency currently tests and certifies products according to Russian Government standards rather than other widely- accepted international standards (e.g., the ISO-9000 system). The Federal Agency for Technical Regulations and its authorized agents are chief sources for certification in Russia. However, other agencies are involved in certification of certain products, including the Ministry of Agriculture (food products) the

Ministry of Health (medical devices and pharmaceuticals), the State Communications Committee (telecommunications equipment and services), the State Mining and Industrial Inspectorate GOSGORTECHNADZOR (equipment for mining, oil and gas industries) and others.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical equipment on conformity to safety standards
- System of certification of passenger cars, trucks, buses and other transport vehicles (UN EEC)
- System of certification of handguns and ammunition
- System of certification of electronic articles (IEC)
- International system of certification of metrology equipment and instruments
- Agreement on mutual recognition of tests of imported aircraft and certification of elements of airplanes
- UN International Navigation Organization (Navigation Safety Convention).

As of January 1, 2006 the Federal Register of Gosstandart of Russia listed 18 systems of mandatory certification and 249 systems of voluntary certification.

The list of accredited certification authorities and test laboratories is published on The website of The Federal Agency for Technical Regulations and Metrology www.gost.ru (in the Russian language).

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Presently in Russia, various federal executive authorities carry out accreditation in accordance with the relevant legislation. Bureaucratic incongruities, overlapping fields of activity and the application of different procedures and criteria in the accreditation process are common occurrences. Often, the accreditation and certification activities of several federal executive authorities are superimposed.

Certification authorities and test laboratories, both Russian and foreign, are accredited in accordance with ISO/IEC Guideline 5 and ISO/IEC Standard 17025.

Currently, each individual Ministry, Gosstandart of Russia and The Research Institute for Certification (VNIIS) can accredit laboratories in their relevant industry sectors. GOSSTANDART of Russia runs the state register of all accredited organizations.

The Department of Technical Regulations and Metrology is currently developing legislation on accreditation of organizations that assess compliance with technical regulations. It is still undecided as to whether the system of a single accreditation body or a number of such bodies will be most efficient in Russia.

Publication of Technical Regulations Return to top

Proposed technical regulations are published (in Russian) on the Federal Agency for Technical Regulations and Metrology's website www.gost.ru for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the website.

Draft and final documents are published in the monthly “Vestnik of Gosstandart of Russia” journal. This journal is an official publication of the Federal Agency for Technical Regulations and Metrology. The journal publishes official documents of the Agency: instructions, rules, decrees, etc. “Vestnik of Gosstandart of Russia” is the country’s effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership assumes that all changes in the standardization system will be transparent, thereby avoiding hidden obstacles (non-tariff barriers) in trading relations with WTO partners.

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Please see the “Labeling and Marking” section above. For additional information regarding labeling and marking requirements, please contact:

Foreign Commercial Service- Moscow
Luba Savchenko, Commercial Specialist
23/38 B. Molchanovka, Bldg. 2
Tel: 7-495-737-5028
Fax: 7-495-737-5033
E-mail: Luba.Savchenko@mail.doc.gov

ROSTEST-MOSCOW
Russian Center for Tests and Certification, GOSSTANDART
31 Nakhimovsky Prospect,
Moscow 117418 Russia
Phone: 7-495-129-1911, 332-6777,129-5936.
Fax: 7-495-124-9996.
E-mail: admtest@rostest-m.msk.ru, www.rostest.ru

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Russia currently participates in a free trade agreement with the Commonwealth of Independent States (CIS), which comprises most of the countries of the former Soviet Union. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed, but is not operational. Russia has an association agreement with the European Union (effective December 1997), proposes to join the World Trade Organization, and has historically received MFN and GSP status from the United States. As of mid-June 2002, the U.S. Department of Commerce designated Russia a market economy. This has had a positive impact on investment and trade between the two countries.

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Bureau of Industry & Security, U.S. Department of Commerce:

Main site:	www.bis.doc.gov
Export Controls:	www.bis.doc.gov/licensing/exportingbasics.htm
Possible Violations:	www.bis.doc.gov/enforcement/redflags.htm
Forms:	www.bis.doc.gov/forms/eeleadsntips.html

Russian State Customs Committee Websites:
www.customs.ru or www.tks.ru

Russian Ministry for Economic Development and Trade
www.economy.gov.ru

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Chapter 6: Investment Climate

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President Putin has repeatedly emphasized foreign investment as a critical element of Russia's economic development, though in some cases the GOR is less willing to permit investment strategies that keep project control in foreign hands. In practice, the GOR has favored joint ventures with local entities or direct cash injections. At times, however, Russia’s commitment to foreign investment has been called into question -- most obviously in the energy sector. Over the past year, the GOR has tightened its grip on the sector and has shown little inclination to allow foreign companies anything more than minority stakes (and often only 20 to 25 percent) in larger projects. Nevertheless, because of the absolute size of these projects, even these small stakes add up to hundreds of millions, if not billions, of dollars. ExxonMobil and ChevronTexaco continue to press their case with the GOR that they remain the rightful license holders of the Sakhalin-3 field. [Background: On January 29, 2004 the GOR's Commission on Production Sharing Agreements failed to confirm the validity of a 1993 tender for the Sakhalin-3 oil and gas fields granted to Exxon, Mobil and Texaco. Since that time, the successor firms ExxonMobil and ChevronTexaco have invested more than $60 million in exploration of these fields. The GOR has indicated that they may re-tender this property in the future. End background.]

In 2005, the government debated a new Law on Natural Resources that represents an improvement over the current law (as amended). In the current draft of the new law, the government has included several of the key provisions sought by industry, including a guarantee that licenses will carry over from the exploration to the development stage, a provision that licenses will be based on civil rather than administrative law, and a limitation on the number of reasons for license revocation. However, the draft includes language that would restrict foreign companies from taking a majority stake in so-called "strategic fields." The GOR has yet to define "strategic," but has indicated that the list of such fields will be short.

As a practical matter, commentators report that the demand for investment in agriculture outstrips the ability of domestic banks to provide the necessary project financing, forcing project developers to use a consortium of financial institutions or request assistance from input suppliers. In addition, despite supportive statements by government officials on investment in agricultural processing facilities, some projects have not taken off due to entrenched interests, lack of clarity, or attempts to turn into an advantage legal ambiguity regarding land procurement and control issues. The GOR's stated interest in substituting domestic production for imported agricultural products provides some encouragement for domestic investment in agriculture. Additionally, though some agricultural sectors are struggling, the food processing industry is more profitable, and is expected to continue to grow as Russia's retail sector continues its rapid expansion. Newly announced programs supporting agriculture as a national priority may help strengthen the grain, oilseed, dairy, and poultry industries in the short term.

A new Forest Code, expected to be adopted in spring 2006, should stimulate foreign investment in the sector by providing tax breaks. In 2004, total investments in the forest industry were estimated at $1 billion, up from $825 million in 2003. These investments included an estimated $280 million in foreign investment, of which 70 to 80 percent was channeled into downstream wood processing. According to the Federal Agency for Forestry, $2 billion of total annual investment is needed to modernize the Russian forest sector. Insufficient investment by both the federal government and the private sector hinder further development of the fisheries sector in Russia.

Russia's vigorous GDP growth and rising incomes have attracted increasing interest from foreign investors, despite the difficulties of doing business here. In addition, many regions have developed laws and programs to attract FDI (including plans to establish techno-parks near universities and export zones near ports and borders). Although tax reforms at the federal level aim to create a level playing field for all investors and limit the scope of incentives regions can offer, in practice, large foreign investors continue to receive such incentives (though a completed investment project is often later expected to provide social services and other benefits to the local population).

Although these positive factors increase Russia's ability to attract FDI, chronic shortcomings in the investment climate continue to dampen potential. The lack of clarity in Russian tax law and administration, inconsistent government regulation, unreliability of the legal system, and crime and corruption all dissuade investors. In addition, recent economic reports have all concluded that corruption is getting worse in Russia.

The 1991 investment code guarantees foreign investors rights equal to those of Russian investors (although some industries do have limits on foreign ownership – see below). The July 1999 law on foreign investment confirmed the principle of national treatment. This 1999 law includes a grandfather clause that protects certain large investments (over approximately USD 33 million) from unfavorable changes in tax or other legislation until the project's breakeven point, but for a period of not more than seven years. However, in practice, these protections have not been provided due to the lack of implementing regulations.

The Russian government is developing legislation to oversee, and possibly limit, foreign investment in "strategic sectors." What exactly constitutes a strategic sector is still undefined. However, it seems clear that the defense industry and national security sectors will fall into this category. While officials had expected to have a draft law ready by late this year, the timeline has slipped into early or mid-2006. For now, government experts are still locked in debate about whether to review individual investment deals on a case-by-case basis or to set across-the-board limits to foreign ownership in key sectors. Both positions have high-level backing and it remains unclear which approach will ultimately prevail.

Explicit restrictions on foreign direct investment are in effect for certain sectors. A 1998 law on the aerospace industry limits foreign ownership to 25 percent of an enterprise, although some existing joint ventures were "grandfathered." In late 2005, legislation was passed eliminating foreign ownership limits in the natural gas monopoly Gazprom. This action followed the GOR's assumption of a direct majority stake in the company.

In 2003, Russia enacted several amendments to the insurance law that effectively liberalized the market, allowing majority-owned Russian subsidiaries of insurers from the European Union to sell life and mandatory forms of insurance in Russia. Although the law only permits those companies with offices in the European Union to open subsidiaries offering life and mandatory forms of insurance, the regulator has interpreted the legislation as allowing any foreign insurer to set up life insurance operations in Russia provided that the company has an office in the EU via which the investment is made. Russian law does not permit foreign insurance companies to establish branch offices in Russia.

A 1998 law limits foreign investment in the electric power giant Unified Energy Systems (UES) to 25 percent or less, although it has not been enforced to date. UES Chairman Anatoliy Chubays is pushing to attract foreign investors into the divested electricity generating companies that will emerge from the restructuring of UES.

Prior approval by the relevant government authority (e.g., State Property Committee, Ministry of Industry and Energy, Ministry of Natural Resources) is required for foreign investment in: new enterprises using assets of existing Russian enterprises; defense industries (which may be prohibited in some cases); and the exploitation of natural resources. Approval is also required for all investments over 50 million rubles, investment ventures in which the foreign share exceeds 50 percent, or investment to take over incomplete housing and construction projects.

Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large-scale construction or modernization may also be subject to expert examination for environmental considerations. In sectors that require licensing (e.g. banking, mining and telecommunications), procedures often can be lengthy and non-transparent. While new business registration procedures go through a so-called "one-stop shop" approach run by the Ministry of Economic Development and Trade in effect since July 2002, the new law does not modify any of the requirements for foreign direct investments noted above.

The 1998 bill "On Additional Measures to Attract Investments into Russian Automotive Industry Development" includes a clause that exempts foreign investors from customs duties on raw materials used for car assembly or production of spare parts -- provided that their investments into such enterprises exceed USD 49 million during a five-year period. In July 2003, the Ministry of Industry, Science and Technology requested that the Russian Government lower the investment threshold entitling investors to duty-free import of raw materials for car assembly to USD 4.9 million.

A new land code allowing ownership (including by foreigners) of non-agricultural land was adopted in October 2001, although some implementing regulations are still in development. In addition, the GOR signed into law July 24, 2002 a land code for agricultural land that permits long-term leases of agricultural land (up to 49 years) to foreigners, but prohibits direct sales of agricultural land to them. Sales of Federal land must be approved by the Prime Minister. This requirement resulted in several investment failures in agricultural processing in 2004 and 2005.

In the privatization of the mid-1990s, irregularities and lack of transparency, as well as the perception of great political risk at that time, limited foreign participation in many of these transactions. This meant that the sale of enterprises in oil, gas, and precious metals was de facto not open to foreign investors. Subsequently, some foreign investors purchased shares of privatized enterprises in secondary transactions, including in oil and gas. For example, U.S. oil firm ConocoPhillips bought the GOR's remaining stake of 7.6 percent in Russian oil major Lukoil in 2004 and has the right to increase its ownership in the company to 20 percent.

Foreign investors participating in Russian privatization sales often are confined to limited positions and face problems with minority shareholder rights and corporate governance. The treatment of foreign investment in new privatizations is likely to remain inconsistent.

Roughly three-quarters of the Russian economy has been privatized, although many privatized enterprises continue to have significant state-held blocks of shares. Some privatization of remaining state holdings is scheduled to continue, both as part of overall government policy, and at local, regional and federal levels as governments seek additional cash. Some of these offerings may be considered good buys by some investors.

Potential foreign investors are advised to work directly and closely with appropriate local, regional and federal officials that exercise ownership and other authority over companies whose shares they may want to acquire. According to a draft privatization plan prepared by the State Property Committee, the government intends to sell most of its minority stakes in companies during 2004-2006, and plans to raise USD 1.1 billion a year from the sale of state assets. In 2004, the GOR attempted to sell all holdings of less than 25 percent. However, because minority positions in very small companies may not attract interested buyers, the GOR likely did not manage to sell all such holdings.

Despite continued growth in 2004, the slow pace of structural reforms and the increasing role of the state in the energy sector have most likely been the main causes for the continued disappointing results for foreign investment. Rule of law, corporate governance and respect for property rights, although improved over the years, remain key concerns for foreign investors. Although there is some increased interest, many large U.S. companies remain cautious about pursuing a strategy of growth through acquisition in Russia, because of fears of liabilities associated with existing operations (especially environmental cleanup), inadequate bankruptcy procedures, and weak property rights protection.

Growth in Russia's retail and consumer sector continues to be a significant driving force behind overall economic growth, propelled largely by the rapid growth in real disposable incomes in recent years. Russia's Federal State Statistics Service estimates that real disposable incomes grew 12.4% in 2005, thus continuing to outpace GDP growth considerably. Many U.S. companies here report recovery in their earnings, with some now back to or above pre-1998 levels. Russia's macroeconomic recovery has revived the attention of outside investors, especially given troubles in other developing country markets and sluggish growth in some developed country economies, although only a few new major projects have materialized.

In recognition of widespread corporate governance problems, the Federal Commission for the Securities Market (now called the Federal Service for Financial Markets) adopted a new corporate governance code in April 2002 and endorsed an OECD White Paper on corporate governance that recommends further improvements in corporate governance in coming years. Some large Russian companies have developed their own corporate governance policies, although implementation is not always robust.

As Russia's oil and gas sector accounts for more than 40 percent of its export revenues and comprises a major share of the world's undeveloped energy resources, it holds tremendous potential for foreign as well as domestic investment. Whether this potential is realized depends on the receptivity to such investment by private Russian oil companies and the Russian government. One area of particular interest is Production Sharing Agreements, which are designed to facilitate projects that require high upfront capital investment, but a long payback period for the investor.

Production Sharing Agreement (PSA) legislation was adopted at the beginning of 1999, but PSA amendments to the tax code passed in mid-2003 sent a very mixed message. The amendments provided a firmer foundation for three operating projects and a few new projects supported by domestic companies, but greatly restricted the possibility of future PSA projects. The re-emergence of PSAs as a tool for attracting investment looks doubtful, even though the efficacy of this regime is shown by the fact that U.S. and other foreign companies have poured several billion dollars into two of the three existing PSA projects, Sakhalin-1 and Sakhalin-2.

Elsewhere in the energy sector, shareholders in the Caspian Pipeline Consortium (CPC) have still not agreed – even after years of negotiations -- on the terms of a deal that would allow for an expansion of the consortium's pipeline. The oil producing companies in the consortium have agreed to virtually every demand from the Russian Government. However, the GOR still refuses to agree to the package and, without this agreement, both the long-term profitability of the pipeline is in jeopardy and access to world markets of an additional 750,000 barrels per day of oil from Kazakhstan and Russia will be delayed.

Up until the attack on Yukos, changes in the ownership structure of the Russian oil industry had resulted in new, more market-oriented partners for U.S. firms seeking to invest in Russia. Now, with the forced sale of Yukos's assets, Sibneft's de-merger with Yukos, Gazprom's subsequent purchase of Sibneft, and ConocoPhillips' purchase of the remaining government stake in Lukoil, the oil and gas landscape has changed substantially compared to only a year ago. The industry no longer exerts extensive influence on the government but, on the contrary, it is the government that appears to have regained control over oil and gas firms. Clearly this will, at least in the short run, reduce the number of competitors in the industry.

The investment climate for agriculture looked brighter in 2005, and better than in many other sectors of Russian economy, due to several factors. Domestic demand for food products is increasing as a result of an upward trend in per capita income. This change is stimulating investments in the food processing industry, and in food wholesale and retail infrastructure. Food processing is expected to continue expanding at 15 percent annually. Profits generated from these enterprises stimulated investments and modernization of Russian agricultural production as well as rural infrastructure.

Structural changes in farm ownership and financing have created a more favorable climate for investment. By the beginning of 2002, many former state and collective farms had completed privatization and bankruptcy procedures, and it became easier to acquire property as property ownership rights became clearer.

Agricultural financing has improved, though investment mechanisms for agriculture, such as banks, are still not strong enough (keeping agriculture undercapitalized), and the practical inability to use land as collateral further reduces investment in agriculture. Vertically-integrated companies do continue to support the development of agriculture, but large non-agriculture-based holding companies have begun to turn toward other sectors. The development of new rural credit cooperatives has been declared a national priority, and nearly $70 million will be funneled through them over the next two years.

Experience has shown that one of the most important factors determining success or failure of a foreign investment project in agriculture is the degree to which the local administration supports the project. Almost all administrations invite investment into their regions, but few are prepared to allow business to operate in a relatively open market without interference in matters such as pricing inputs and contracting for services. Many local administrations still view foreign investors as sources of cash for the support of local government and favored businesses. They will also sometimes expect the foreign firm either to pay outright a significant bribe or undertake social or public works projects for the betterment of the region.

Conversion and Transfer Policies

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Russia implemented a series of amendments to its laws on currency controls in 2004. While the ruble is the only currency that is legal tender in Russia, in general companies and individuals face no significant difficulty in obtaining foreign exchange. Authorized banks are not difficult to find as most have licenses to conduct currency transactions**.** While the following discussion represents a "snapshot" of current requirements, investors would be well advised to seek expert advice on the controls in effect at the time.

Generally, any payment obligation that lasts longer than 180 days is a "capital" transaction. "Current" forex transactions include contracts in which settlements take place within 180 days and loans not exceeding 180 days. Currency controls exist on all transactions that require Customs clearance, meaning that in Russia they apply to both import and export transactions. Greatly simplified, the structure is the same: the importer or exporter presents the "passport of deal" documents to an authorized bank, which controls the flow of funds in and out of Russia according to CBR regulations.

A "passport of deal" is a set of documents that importers and exporters provide to authorized banks to review whether the transaction meets currency control regulations. Once an authorized bank signs the passport of a deal, it monitors the entire transaction for compliance with currency regulations, and the importer/exporter must use that bank for all parts of the transaction. The importer/exporter must present the passport signed by the authorized bank to clear shipments through Customs. The Customs Committee notifies the bank once the shipment has been cleared. The authorized bank then monitors compliance with payment regulations.

In June 2004, the Central Bank put a number of regulations into effect that were designed to implement amendments to Federal Law No. 173-FZ "On Currency Regulation and Currency Control," dated December 10, 2003. According to the most recent regulations, foreign currency transactions between residents and non-residents involving non-cash settlements must be carried out using special bank accounts. Authorized banks are permitted to open special bank accounts for resident individuals (”F” Accounts) and resident entrepreneurs and legal entities (“R1” and “R2” accounts). Non-residents in Russia open the following special accounts: "S" accounts to trade sovereign ruble bonds, "A" accounts to trade shares in unit investment funds, "O" accounts to trade non-sovereign ruble bonds, "V1" accounts to receive ruble loans from residents, and "V2" accounts to give loans to residents as well as to buy certain types of securities from residents. In addition to establishing these new accounts, the amendments declare that all currency controls will be lifted on January 1, 2007.

Only authorized banks may carry out the sale or purchase of foreign currency transactions. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including requirements that a) the transaction be completed through a special account and b) a security deposit be established (up to 20 percent and one year for non-residents, and up to 100 percent and 60 days for residents purchasing foreign exchange).

Special controls on current transactions proceeds from the sale of exported goods for foreign currency must be credited back to the exporter's account in an authorized bank. The latest amendments to the Law on Currency Regulation And Currency Control that took effect in June 2004 stipulate a ceiling for mandatory surrender requirement at 30 percent of foreign currency proceeds. The actual norm is to be set by the CBR, but in any event the percentage may not exceed this ceiling. Effective December 27, 2004, the CBR set the surrender norm at 10 percent. Forex proceeds must be sold for rubles within seven days of credit to the exporter's account. If there are delays or discrepancies in the receipt of export earnings (due, e.g., to price fluctuations), or delays or non-shipment of prepaid goods, the importer/exporter is liable to Customs sanctions. They can submit documents to the Ministry of Economic Development and Trade to explain or justify the delay or non-receipt.

Expropriation and Compensation

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The 1991 investment code prohibits the nationalization of foreign investments except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to the courts of the Russian Federation, and are to be paid with prompt, adequate and effective compensation.

At the sub-federal level, expropriation has been a problem, as has local government interference or lack of enforcement of court rulings protecting investors. The embassy is tracking a small number of cases in which foreign companies are seeking compensation for the loss of their investment or property due to regional government action or inaction.

Dispute Settlement

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Russia has a body of conflicting, overlapping and rapidly changing laws, decrees and regulations, which has resulted in an ad hoc and unpredictable approach to doing business. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Regional and local courts are often subject to political pressure. In addition, court decisions are at times not executed and the bailiffs, who are charged with enforcing court judgments, are administratively not part of the court system and sometimes opt not to enforce those judgments.

Many Western attorneys refer their Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was made. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international arbitration. Russia is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, the enforcement of international arbitral awards still ultimately requires action from Russian courts and follow-up by court officers through a new system of bailiffs that, due to legal restrictions and limited trained personnel, has yet to become a consistently effective enforcer of court judgments.

As for legal avenues available in Russia through Russian arbitration, one choice is the Arbitration Court of the Russian Federation, which is part of the court system. It has special procedures for seizure of property before trial, so property cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration Court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. Parties to foreign trade agreements and companies with foreign investments can make applications. A similar arbitration court has been established in St. Petersburg. The Russian Union of Industrialists and Entrepreneurs, an organization representing some of the largest Russian companies, is also developing an alternate dispute resolution (ADR) system.

As with international arbitral procedures, the weakness in the system is in Russian enforcement of decisions. Bailiffs report to the Ministry of Justice, rather than the courts, and the courts can do little to ensure that decisions, once passed down, are executed. The Embassy is currently aware of several cases where despite repeated favorable court decisions for financial restitutions, foreign investors have not been able to get a judgment enforced against another private party or a local government.

Performance Requirements and Incentives

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While performance requirements are not generally imposed by Russian law, and are not widely included as part of private contracts, they have appeared in the agreements of large multinational companies investing in natural resources, and in production sharing legislation. There are no formal requirements for offsets in foreign investments. However, as approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of commitment to the Russian market, in practice this may result in offsets. The provision of investment incentives has been problematic in Russia, as the Russian government's interest in attracting investment has been tempered by its tight financial situation, concern about special privileges given to foreign investors, and interest in complying with the rules of the World Trade Organization and other international economic institutions. Those investment incentives set out in the 1991 investment law, including certain tax benefits, have never been implemented, or have been largely eliminated or superseded by subsequent laws and decrees.

Changes to the corporate profits tax code adopted in 2001 reduced overall corporate profits tax rates from 35 to 24 percent, but limit regional government incentives to reducing corporate tax rates by up to 4 percentage points. The PSA Chapter of the Tax Code enacted in June 2003 stipulates that 70 percent of purchased goods in each calendar year must be of Russian origin. Purchased goods are considered to be Russian by origin if they in turn have at least 50 percent Russian origin. The PSA Chapter itself specifies that investors will be refused cost recovery if they do not meet Russian origin rules. However, the amended PSA Law acknowledges that changes will need to be made to the Russian origin rules in case Russia joins the WTO. The Russian auto decree, signed in early 1998, allows tariff breaks for large investments in the auto industry (where investment projects reach 50 percent domestic content levels within five years). However, the Russian government has stated that it does not intend in the future to enter into such arrangements with investors. As mentioned above, the 1999 foreign investment law theoretically provides protection from unfavorable changes in taxes or customs duties for certain foreign investments exceeding USD 41 million. Implementing legislation to enact such protections is still outstanding.

The GOR requires visas and residence permits for investors. Work and residence permits must be renewed annually, which can sometimes be a cumbersome process, as applicants may be required to reapply at a Russian embassy overseas.

Investors in some sectors also may face restrictions requiring that a certain percentage of staff be Russian citizens.

Right to Private Ownership and Establishment Return to top

Both foreign and domestic legal entities may establish, purchase and dispose of businesses in Russia. Investment in some sectors, which are regarded as affecting national security (insurance, banking, natural resources, communication, transportation, and defense-related industries), may be limited.

The Land Code approved in 2001 allows foreigners to buy non-agricultural land made available for private ownership and not located near international borders. The Agricultural Land Code allows foreigners to lease agricultural land for 49 years. In 2004, the Constitutional Court upheld the constitutionality of the provisions of the Land Code permitting land sales to foreigners, ruling that selling land does not affect sovereignty.

Protection of Property Rights

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The Constitution, and a presidential decree issued in 1993, give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property (usually not including the land on which it stands). Mortgage legislation enacted in 2004 should make it easier for lenders to evict homeowners who do not stay current in their mortgage payments. This should in theory make mortgage lending (and the housing market) more attractive to lenders and developers. Nevertheless, mortgage lending is only in its initial stages. Land ownership is now regulated by the October 2001 land code for non-agricultural land, although development of implementing measures is still in progress. This law permits foreign land ownership for non-agricultural land. A land code for agricultural land was signed into law on July 24, 2002. This law does not permit direct foreign ownership of agricultural land, but does permit leases of up to 49 years. The rights of Russian citizens to own and sell residential, recreational, and garden plots are now clearly established, with over 40 million properties of this type under private ownership.

Intellectual Property Rights (IPR) violations continue to be a serious problem in Russia. While Russia has made significant advances in its efforts to improve its IPR protection regime, many challenges remain. The U.S. is reviewing Russia's status as a beneficiary country under the U.S. Generalized System of Preferences (GSP) Program. Russia has also been on the Special 301 Priority Watch List since 1997, and will undergo an Out-of-Cycle Review in early 2006.

U.S. copyright industries estimate they lose in excess of $1.5 billion annually due to copyright piracy (films, videos, sound recordings, books and computer software). Although five of the six major U.S. film studios and several music producers now produce and sell DVDs and CVDs in Russia at lower prices in order to compete with pirates, this has not led to a noticeable decline in the market share for pirate products, which U.S. industry estimates at over 80 percent of for films and approximately 66 percent for music. The local business and entertainment software industries, however, report declining levels of piracy. Internet piracy has become a growing concern with the growth of internet access, although the Russian government is beginning to make efforts to combat both music downloading services as well as websites that sell pirated music and software.

Russian law enforcement has recently taken a more aggressive approach toward pirate optical disk producers. Since the start of 2004, law enforcement agencies have conducted raids on at least half of the licensed optical disk plants in Russia. However, cases often fail at the prosecution stage and few convictions for IPR violations ever lead to prison sentences; judges are prosecutors frequently lack expertise in the handling of IPR violations or do not always regard them as serious crimes. Corruption continues to be a problem; enforcement actions and prosecutions are often undermined and products seized during enforcement actions frequently return to the stream of commerce even if they are found to be illegal.

U.S. investors also consider the Russian court system ill-prepared to handle sophisticated patent cases. However, a specialized higher patent chamber has been established at Rospatent, which has brought greater expertise and efficiency to resolution of patent and trademark disputes.

Despite concerted efforts, several other deficiencies remain in Russia's IPR regime, including: a lack of explicit protection for test data for pharmaceutical products and agricultural chemicals; denial of national treatment for protection of geographical indications; and problems with enforcement. As of late 2005, the Russian government has proposed legislative changes to address these concerns; however, these changes have not yet made it through the Duma.

U.S. and multinational companies continue to report counterfeiting of patented and trademarked goods as a serious problem, especially for consumer goods, wine, distilled spirits, pharmaceuticals and other products. Several U.S. firms have also experienced problems with trademark piracy, with Russian enterprises attempting to take over well-known foreign trademarks not currently active in Russia, although rightsholders have been moderately successful in countering these schemes through the Russian court system or with Rospatent. U.S. firms need to take steps to protect their intellectual property, including registering their trademarks with the Russian Federal Service for Intellectual Property, Patents and Trademarks (Rospatent).

The September 1992 law on topology of integrated microcircuits, which also protects computer programs, protects semiconductor topologies for 10 years from the date of registration. Amendments to this law on topologies to bring provisions into full WTO TRIPs compliance were passed in June 2002 and signed into law in July 2002.

Russia has acceded to the Universal Copyright Convention, the Paris convention, the Berne convention, the Patent Cooperation Treaty, the Geneva Phonogram Convention, and the Madrid Agreement. The U.S.-Russia bilateral trade agreement mandates protection of the normal range of literary, scientific and artistic works through legislation and enforcement.

Transparency of Regulatory System Return to top

The legal system in Russia is still in a state of flux, with various parts of government struggling to create new laws on a broad array of topics. In this environment, negotiations and contracts for commercial transactions are complex and protracted.

Russia has implemented only part of its new commercial code (contained within the civil code) and investors must carefully research all aspects of Russian law to ensure that each contract conforms to Russian law and embodies the basic provisions of the new, and where still valid, old codes. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government and jurisdictions interpret and apply regulations with little consistency and the decisions of one may be overruled or contested by another. President Putin has stressed the need for consistent application of national law, and his seven regional Presidential Representatives have begun to review regional legislation and regulations to ensure their consistency with national law.

Legal requirements may be less burdensome than reaching final agreement with local political and economic authorities; registration of businesses can be a lengthy, bureaucratic process, particularly where natural resources or defense production are involved.

Corruption is widespread and the fears of some Russian officials that foreigners will purchase Russian assets at below-market rates can impede bureaucratic approval for foreign investments. Environmental concerns are being raised more frequently now by Russian officials at federal and local levels as considerations in the approval process for investments.

A law on government procurement, adopted in May 1999, contains a provision allowing foreign firms to participate in public tenders if the product is not produced in Russia or if Russian production is considered to be economically unprofitable.

The last major revision to the Russian Tax Code took effect in 2001. It substantially amended chapters 21 (Value Added Tax), 22 (Excise Taxes), 23 (Personal Income Tax) and 24 (Unified Social Tax). The effect of these reforms is to reduce the nominal tax burden from 41 percent of GDP (only 37 percent actually collected) to 31.5 percent in 2004. Six taxes were abolished entirely: the 1.5 percent social and housing turnover tax; the Employment Fund tax; the state border clearance fee; vehicle tax; vehicle acquisition tax; and oil and lubricant product sales tax. Further, the road users turnover tax was reduced from 2.5 percent to 1 percent of turnover, and in June 2002 was abolished entirely, effective January 2003. With the abolition of the road tax, no turnover (revenue) taxes remain in Russia. The GOR plans to cut the total number of taxes to 15 (from the current number of 54), effective January 1, 2006.

Value-added tax (VAT) rates are generally 18 percent, but a range of goods is taxed at 10 percent (largely foods, medicines, and some items for children). Both domestic and foreign companies exporting goods regularly complain that they are unable in practice to receive refunds of VAT for exported goods. Notable VAT tax changes include VAT tax relief for small businesses, considerable clarification to deductibility rules, reduction of import VAT exemptions, and an attempt to provide a zero VAT tax on exports, although the VAT refund system still does not function well. Effective 2006, the VAT rate will be reduced to 16 percent.

In 2001, Russia moved to a flat individual income tax rate of only 13 percent for residents and 30 percent for non-residents, one of the lowest rates in the world. Deductions are allowed for, inter alia, home purchase or construction and exclusion of earnings on the sale of real property held for more than five years. The GOR's strategy is to substantially expand the current narrow tax base. In 2001, that strategy proved successful as both compliance rates and revenues increased substantially.

Excise duties are levied only on alcoholic beverages, tobacco products, cars, motor fuel, and oil. Excise duties on oil and natural gas increased considerably in 2005 -- oil and gas duties rose from R5 to R66 per ton, and gasoline duties rose from R585 to R1850 per ton. Excise taxes on natural gas exported to CIS countries will fall from the current 30 percent to 15 percent. The new law expands the list of dutiable activities and objects, but several additional transactions became exempt, including exports performed by the producer of the goods (except oil). In August 2004, the GOR introduced a new system of mineral extraction taxes for oil and export duties on oil and oil products solely dependent on the level of Urals export prices.

The two changes together mean the marginal tax rate on a barrel of exported oil is 90 percent when the oil price is above $25/bbl. However, the Russian government is considering a revision of the tax structure following complaints from Russian oil companies. There will likely be some easing of the tax burden in 2006. These new rules heighten the sensitivity of federal budget revenues to oil prices: the mineral extraction tax and export duties (98 percent of which are oil and gas tariffs) make up 33 percent of total budget revenues.

Amendments to the Corporate Profits Tax were signed into law in 2001, effective January 2002. The amendment lowered corporate profit taxes to 24 percent, and allowed many more deductions than under the old law, but eliminated partial and full tax exemptions (including the capital investment exemption). Regions are allowed, at their discretion, to grant a 4 percent tax reduction, effectively lowering the profits tax rate to 20 percent. Many regions have, in fact, done this. For dividends/interest earned by non-residents, the profit tax rate is 15 percent.

Several tax reductions came into effect starting in 2004. The sales tax and the natural gas excise tax were both abolished. To compensate for losses in federal revenue, the bill included a gas extraction tax of 107 rubles (USD 3.52) per 1,000 cubic meters, a five percent increase in the crude oil extraction tax, and increases in various excise taxes. Lost local sales tax collections were covered by increased federal government transfers of revenues from taxes on small and medium enterprises, excise taxes on motor fuel, land taxes, and 50 percent of the alcohol excise tax. The export tariff on gas rose from 5 to 28 percent. Effective January 1, 2005 the Unified Social Tax, which is paid by employers and covers pensions, healthcare and social security, dropped from an effective rate of about 30 percent to a top rate of 26 percent on salaries up to 280,000 rubles (about $10,000) per year.

Since the Yukos affair, major taxpayers have been less likely to engage in aggressive tax optimization schemes than in years past. Nevertheless, the "fear" factor associated with the Yukos case is not the only motivation behind most firms' decision to review their accounting procedures and improve their tax behavior. Straightforward market forces are driving businesses toward more transparent accounting practices. For example, firms with clean books have an easier time accessing foreign capital and drawing foreign investors than their shadier competitors. In addition, more companies, both foreign and domestic, are taking their tax disputes to the courts, which are reportedly becoming more competent at adjudicating tax cases fairly. As a result, tax compliance levels are gradually increasing, as evidenced by record high tax revenues in 2005. Nonetheless, problems in the tax environment remain. Companies often have little recourse other than the courts during tax disputes. While firms have successfully appealed to the courts, tax authorities are often slow to implement judicial decisions. Penalties for non-compliance include confiscation and a company's accounts can be frozen relatively quickly. In early 2005, President Putin acknowledged the negative impact of the tax environment on the business climate when he called for an end to "tax terrorism." In response to the President's order, the Government submitted a substantial package of amendments to the Duma designed to increase transparency and consistency in the tax environment. Russian legislators are currently reviewing the amendments, which are scheduled to be put into effect in early 2006.

Efficient Capital Markets and Portfolio Investment

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The Russian banking system remains relatively small, with $14.2 billion in aggregate registered capital as of August 1, 2005. Recent data indicates that only 39 of Russia's

1,228 banks are wholly foreign-owned. In April 2005, the GOR and the Central Bank of Russia adopted the Banking Sector Development Strategy through 2008. According to official sources, the strategy seeks to enhance the stability and efficiency of the banking sector by: increasing the protection offered to depositors and creditors; enhancing the banking sector's role as a primary intermediary for household and commercial credit operations; improving the Russian banking sector's competitiveness; protecting the financial sector from illicit activity such as money laundering and the financing of terrorism; improving transparency in the sector; and building up investor, creditor, and depositor confidence in the banking sector. In September 2005, the CBR completed its review of all banks that sought admission to the recently established Deposit Insurance System (DIS). To gain admission to the DIS, a bank had to verifiably demonstrate to the CBR that it complies with Russian identification and transparency requirements. Currently, 927 of Russia's estimated 1200 banks have been admitted to the DIS, effectively weeding out over 200 banks from Russia's banking system.

Twelve stock exchanges operate in Russia. The dominant exchanges are in Moscow, and include the Russia Trading System (RTS) and the equity trading floor on the MICEX (Moscow Interbank Currency Exchange). The RTS rebounded in 2005 with net profits increasing by 100% over 2004. Turnover exceeded $57.7 billion in 2005, showing an increase of 50% over 2004. Over the year, average daily volume on the RTS increased 44% to $31 million, with greater average daily volumes of $44 million recorded in the second half.

Although the RTS is more diversified, average trade volumes on the MICEX stock exchange are much higher than on RTS. In 2005 (through November) average daily trade volume was $556 million, up from $448 million in 2004. MICEX was still dominated by RAO UES shares in 2005, though the UES share fell from about 50 percent in 2004 to 37 percent in 2005. Other leading stocks in 2005 were Lukoil (25 percent, up from 15 percent in 2004), Norilsk Nickel (12 percent, up from 6.5 percent), Rostelecom (6.8 percent, up from five percent), Surgutneftegaz (6.5 percent, slightly down from 6.7 percent in 2004) and Sberbank (avg 3.2 percent in 2005).

After not operating during 2004, the Moscow Stock Exchange began a restructuring process in April 2005 and resumed trading activity in August 2005, though the level of trading activity has been low. Gazprom shares accounted for up to 95 percent of trades on the MSE from 1997 to 2003, and the new managers are attempting to diversify the trading activity. Several Russian regional centers have their own stock exchanges, but trade volumes outside Moscow tend to be low. Regional exchanges are still dependent on Moscow-based participants.

Amendments to the law "On the Securities Market," which entered into force in 2003, included definitions of corporate bonds, mutual funds, options, futures and forwards -- all of which provide a sounder legal basis for these markets. Companies offering public shares are required to disclose more information during the placement process as well as in quarterly reports. In addition, the responsibilities of financial consultants helping companies with their stock offerings are now clearly defined, and they will be held liable for accuracy of the data presented to shareholders. Also, the amendments define "price manipulation," giving the FSFM authority to investigate and punish violators of this practice. However, the amendments did not cover insider trading, which is the subject of another bill that is currently stalled in the Duma, as there is strong lobbying against it. In December 2004, the Duma also approved a number of amendments to the law "On

Mortgage Securities" as part of the housing reform package in an effort to facilitate the issuance of mortgage-backed securities while protecting individual investors.

The corporate bond market is currently the most rapidly and dynamically developing sector in Russia's capital markets. High and increasing demand from enterprises for funds in the absence of an effective system of bank lending is the main driver of growth. It is also boosted by weaknesses in other current characteristics of the market: the absence of more attractive ruble-denominated alternative asset classes, low and even negative real interest rates on the secondary OFZ/GKO market, the absence of speculative opportunities on the currency market, and a large and increasing volume of rubles caused by dollar oil export earnings flowing into Russia. 2005 saw a record high amount of RUB 270 billion raised in the corporate bond market, compared to RUB 145 billion in 2004.

Even though the corporate bond market is rapidly developing, it suffers several problems. The market is still quite narrow. It is very difficult to provide the necessary level of liquidity for relatively small issues, even if the issuer is a blue-chip company. Another problem is the expense of preparations, including development of each issue's parameters, prospectus registration, underwriting services, etc. Also, a 0.8 percent issuance tax adds to the expenses of the issuer. Another barrier to the growth of the market is a provision of the federal law "On Joint Stock Companies", which requires the volume of a bond issue not to exceed a company's authorized (charter) capital.

The banking sector remains one of the weakest legs in the Russian reform program. Despite measured progress in several areas, the Russian banking system is not yet efficiently performing its basic role of financial intermediary (i.e. taking deposits and lending to business and individuals). As illustrated by the summer of 2004's mini-banking crisis, the public still lacks confidence in the banking sector. Approximately one third of the population still prefer to keep their personal savings "under the mattress" rather than trust their savings to banks. Yet, this year's successful implementation of the Deposit Insurance System proved a critical psychological boon to the sector, evidenced by this year's growth in overall deposits. Although Sberbank remains the largest bank in Russia by a large margin, the sector has made some progress toward diversification. Sberbank faces increasing competition from the second largest state bank, Vneshtorgbank, as well as from several other significant contenders (including Gazprombank, Alfa Bank, and MDM Bank). As evidence of this increasing diversification of the banking sector, Sberbank's share of retail deposits has dropped to less than 40 percent in 2005, compared to the 60 percent it held less than two years ago.

Political Violence

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Although the use of strong-arm tactics is not unknown in Russian commercial disputes, post is not aware of any cases where foreign investments have been attacked or damaged for political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, and the Chechen Republic and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

Corruption

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Corruption remains a serious problem in Russia, with the country ranking 126th on Transparency International's (TI's) 2005 Index (with a score of 2.4). TI's report noted that Russia's drop from 2004 (from 90th place and a score of 2.8) was so severe that it likely reflects a statistically significant drop in the perceptions of corruption here. U.S. firms have identified corruption as a pervasive problem, both in number of instances and in the size of bribes sought.

Under the Russian Criminal Code (Articles 290 and 291) giving and receiving bribes are criminal acts carrying prison sentences of up to 12 years. However, Russia has not criminalized bribery of foreign officials. While there are regular prosecutions related to bribery, there have been few high-profile, apolitical prosecutions that would send a clear deterrent message. In addition, bribery and other corruption issues are handled by the police, who are seen by the public as one of the most corrupt government institutions. Strict documentary requirements applied to tax deductions for business expenses make it very unlikely Russians would be able to take tax deductions for bribes.

Corruption in commercial and bureaucratic transactions and problems with the implementation of customs regulations also inhibit investment. Customs officials are extremely inconsistent in how they apply the law. Investment would benefit from improved dispute resolution mechanisms, the systematic protection of minority stockholders rights, conversion to international accounting standards, and the adoption and adherence by companies to business codes of conduct. Successive Russian governments have designated the fight against corruption as a priority task of government due to its economic costs (particularly the deterring of foreign and domestic investment and encouragement of capital flight).

President Putin has repeatedly stressed that enforcement of laws is a high priority of his administration, and has periodically focused attention on corrupt practices. However, initiatives to address these shortcomings, either through regulation, administrative reform or government-sponsored voluntary codes of conduct, have made little headway in countering endemic corruption. More transparent implementation of customs, taxation, licensing and other administrative regulations is necessary.

Russia signed the UN Convention against Corruption in December 2003. The OECD Convention is currently on President Putin's desk awaiting signature. Transparency International and other NGOs are interested to see if he will sign it before the G8 Summit in St. Petersburg in July.

Bilateral Investment Agreements

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In 2005 the Russian Duma did not actively consider signing the Bilateral Investment Treaty (BIT) between the United States and Russia that was signed in 1992 and ratified by the U.S Senate that same year. Despite the passage of a new law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The law on foreign investment provides that a single agency (still undesignated) will register foreign investments and that all branches of foreign firms must be registered.

Russia inherited from the Soviet Union 14 bilateral investment treaties (BITs) with Austria, Belgium and Luxembourg, Great Britain, Germany, Italy, Spain, Canada, China, Korea, the Netherlands, Finland, France, and Switzerland. They were ratified in 1989-90 and came into force in 1991. Russia has since negotiated another 34 agreements, of which 20 have been ratified - with Greece, Cuba, Romania, Denmark, Slovakia, Czech Republic, Vietnam, Kuwait, India, Hungary, Albania, Norway, Yugoslavia, Lebanon, Macedonia, the Philippines, Egypt, South Africa, Japan, and Moldova. However, in 2002 Russia requested that all treaty partners re-negotiate BITs, professing concerns that existing BITs may not be compatible with future WTO obligations.

OPIC and Other Investment Insurance Programs Return to top

In an agreement ratified in 1992, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees and investment insurance against political risks to U.S. companies investing in Russia. OPIC generally insures against three political risks: expropriation; political violence; and currency inconvertibility. In 1994, to meet the demands of larger projects in Russia (and worldwide), OPIC doubled the amount of insurance and quadrupled the amount of finance support - to USD 200 million in each case - it can commit to an individual project (a total of USD 400 million). OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds.

Russia is a member of the Multilateral Investment Guarantee Agency (MIGA). In December 2000, OPIC resumed coverage in Russia for currency inconvertibility, coverage that OPIC had suspended in September 1998 after the financial crisis. During this period, OPIC remained on cover in Russia for its other services. In FY 2005, OPIC provided $119 million in guarantees and insurance for 29 projects, compared to $99 million for 22 projects in FY 2004.

In the event OPIC would need to pay a currency inconvertibility claim, it would use the exchange rate in effect on the date the claim is submitted.

Labor Return to top

The Russian labor market remains fragmented, characterized by limited labor mobility across regions, and consequent wage and employment differentials. Although statistics are often unreliable and many forms of unemployment are not counted, unemployment, using International Labor Organization (ILO) standards, was 7.6 percent of the workforce in October 2005.

Estimates reach over 40 percent in parts of the north Caucasus. However, unemployment in Moscow is about one percent, and average monthly incomes are approximately three times higher than the national average, which was about USD 290 per month. The rate of increase for official real salaries was 7.9 percent in 1H05, exceeding GDP growth for the period of 5.7 percent.

Labor mobility continues to be restricted by an under- developed housing and mortgage market, affordable housing shortages in many cities, and the continued existence of residency permits and registration. The availability of subsidized housing and cultural ties often make workers reluctant to move, and a lack of information about employment or housing opportunities in other regions exacerbates the situation. This lack of labor mobility across regions significantly affects wage rates and employment. Nonetheless, labor mobility across professions and within regions is improving, as workers attempt to adapt to the needs of a market economy. The labor force is generally well educated, though skilled labor has been in increasingly short supply.

Total wage arrears were USD 340 million as of October 2005. Strikes in the private sector are less frequent than they were in the mid-1990s. Workers have increasingly pursued their demands through the court system or used methods such as rallies and days of action to call attention to their plight. Enterprises that pay wages in full and on time generally have smooth labor-management relations.

The trade union movement is still largely dominated by the Federation of Independent Trade Unions of Russia (FNPR), which inherited the bulk of the property of its Soviet predecessors and consists of formerly governmental unions. Many new free trade unions outside this confederation have begun to make significant strides in defending their members' interests. In an effort to wield more influence on national legislation and government decisions, several national and regional free trade union structures formed in 1995 the Russian Confederation of Labor (KTR) and the All- Russian Confederation of Labor (VKT). In November 2000, the International Confederation of Free Trade Unions (ICFTU) accepted as members the KTR, VKT, and the FNPR.

The Russian government generally adheres on paper to International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often lacking. In December 2001, President Putin signed into law a new Labor Code that came into force in February 2002. The new Code seeks to diminish the role of government in setting and enforcing labor standards and to move toward more flexible labor markets. In the conceptual scheme of the new Code, trade unions are expected to play a balancing role in representing workers' interests. However, there are significant gaps in the proposed scheme, including no clear enforcement mechanisms for failure or refusal by an employer to engage in good faith collective bargaining or other obligations and provisions that favor designation of a majority union as the exclusive bargaining agent. Worker safety is a major unresolved issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety.

Foreign-Trade Zones/Free Ports Return to top

In 2005, the Russian government passed the Law on Special Economic Zones (SEZs), which proposed the establishment of industrial-production zones and progressive-technical zones (focused on R&D) for twenty-year periods. In November 2005, the government announced the results of a tender and the establishment of six SEZs. Enterprises operating in industrial-production zones (20 square kilometers) will pay lower unified social taxes (with the highest rate reduced from 26% to 24%) and those within progressive-technical zones (2 square kilometers) are allowed to write-off all R&D expenses. Both types of zones will benefit from reduced land and property taxes and a waiver of customs duties on imports and finished exports. The tender process will continue in 2006, with more SEZs to be designated.

The SEZ in Kaliningrad, which allows goods to be imported duty-free as long as they are not re-exported to the rest of Russia, has been able to attract some moderate investments. An SEZ in Magadan has attracted minor amounts of investment and the SEZ in Nakhodka has reportedly never been implemented. Many larger foreign investors see little advantage to establishing within one of the proposed SEZs, as investment incentives offered by local administrations are often more attractive than the SEZ benefits.

Foreign Direct Investment Statistics

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Table 1 shows flows of foreign investment by country for the first nine months of 2005, compared to the same period in 2004. Contrary to recent years, the first nine months of 2005 showed a decrease in foreign investment flows over the same period in the prior 2004. Note that Russian statistical practice counts total investment as including direct investment, portfolio investment, and "other" investment (largely trade credits). Cyprus consistently figures high as an investor because most investment coming from Cyprus is actually returning Russian capital.

Table 1: Top Ten Investors - By Year (in USD million)

Country	Jan-Sept. 2004	Jan-Sept. 2005
UK	4,856	5,003
Netherlands	3,587	4,055
Luxembourg	6,757	3,630
Cyprus	2,850	3,255
Switzerland	1,048	1,546
Germany	1,168	1,388
USA	1,624	1,167
Virgin Islands (UK)	553	833
Bahamas	N/A	559
France	1,925	540
Japan	N/A	N/A
Austria	568	N/A
All Others	4,767	4,853
Total	29,135	26,829

(Note: As of 2001, the Federal Service for State Statistics stopped providing breakdowns of direct and portfolio investment in its yearly statistics, and started instead providing this for accumulated investment (table 2).)

The numbers in Table 2 can only be taken as a general indication of the stock of investment activity identified with a given country. This does not represent an accumulated stock of direct investment because these figures include portfolio and "other" investment and do not reflect any withdrawal of funds or decreases in value of assets. Although the U.S. fell behind the Netherlands and Cyprus in terms of direct investment in 2004 and 2005, this is largely due to Royal Dutch/Shell's USD 11 billion investment in Sakhalin and returning Russian capital from Cyprus. Note that although Germany continues to show a larger stock of total investment than the U.S., a large proportion of German investment consists of "other" investment, primarily trade credits.

Table 2: Top Investors - Accumulated Basis (Amounts in USD Million)

	Jan.-Sept. 2004		Jan.-Sept. 2005	
Country	Total	FDI	Total	FDI
Cyprus	9,580	5,545	17,576	12,682
Luxembourg	10,560	280	16,101	399
Netherlands	10,678	7,858	15,586	12,085
UK	7,422	1,460	9,642	1,802
Germany	9,378	2,410	9,321	2,587
USA	6,670	4,207	7,157	4,361
France	4,206	364	3,483	424
Switzerland	1,608	738	2,179	1,015
Virginia Islands (UK)	1,611	873	2,151	1,382
The Bahamas	N/A	N/A	1,801	639
Japan	N/A	N/A	N/A	N/A
Austria	1,140	262	N/A	N/A
All Others	10,576	5,772	11,477	5,954
Total	73,429	29,769	96,474	43,330

Source: Federal Service for State Statistics (FSSS)

Table 3 shows foreign investment by region over the first nine months of 2005, compared to the same period in 2004. Moscow city attracted the largest volume of investments, mainly due to concentration of companies' headquarters that guarantees attraction of investments. Moscow also has the largest concentration of consumers with high purchasing power.

Table 3 – Foreign Investment – Top Regions

	Jan-Sep 2004			Jan-Sep 2005		
	Amount	%	Rank	Amount	%	Rank
Moscow (city)	11,796	40.5%	1	11,438	42.6%	1
Sakhalin	2,774	9.5%	3	3,743	14.0%	2
Moscow Region	1,292	4.4%	4	1,772	6.6%	3
Omsk Region	811	2.8%	7	1,620	6.0%	4
Sverdlovsk Region	427	1.5%	11	967	3.6%	5
St. Petersburg	651	2.2%	8	899	3.4%	6
Chelyabinsk Region	210	0.7%	12	647	2.4%	7
Republic of Sakha (Yakutiya)	520	1.8%	10	596	2.2%	8
Samara Region	592	2.0%	9	483	1.8%	9
Arkhangelsk Region	-	-	-	577	1.8%	10
Vologda Region	1,054	3.6%	5	419	1.6%	11
Kemerovo Region	-	-	-	416	1.6%	12
Krasnoyarsk Region	921	3.2%	6	376	1.4%	13
Khanty-Mansiisk region-Ugra	3,899	13.4%	2	66	0.2%	-
Others	4,187	14.4%		3,354	12.5%	
Total	29,135	100.0%		26,829	100.0%	

Source: Federal Service for State Statistics (FSSS) (Note: Includes direct, portfolio and other investment.)

Tables 4a and 4b show investment by sector over the first nine months of 2005. Investment in trade and catering continued to lead all sectors as of September 2005.

As of January 1, 2005, Goskomstat has changed its methodology for calculating industry-related statistics. It no longer breaks the data down by sector; rather it groups it into three categories: (1) extraction of raw materials, (2) manufacturing, and (3) production and distribution of electricity, gas and water. While the new standard conforms to EU methodology and makes cross-country comparisons more relevant, it makes comparisons to the prior year more difficult.

Table 4a: Foreign Investment: Top Sectors – 2004 (Amounts in USD Millions)

	Jan-Sep 2004	
	%	Amount
Trade/Catering	32.8%	9,557
Fuel Industry	24.2%	7,055
Non-Ferrous Metallurgy	6.9%	2,003
Ferrous Metallurgy	5.1%	1,478
CASM	3.9%	1,133
Food Industry	3.5%	1,019
Communications	3.4%	1,003
Machine Building	2.6%	771
Lumber Industry	2.4%	705
Finance	2.4%	691
Chemical and Petrochemical	2.1%	605
Transport	1.7%	486
All Others	9.0%	2,629
Total	100.0%	29,135

Table 4b: Foreign Investment: Top Sectors – 2005 (in USD)

	Jan-Sep 2005	
	%	Amount
Trade/Catering	32.2%	8,634
Extraction of Fuel	14.4%	3,856
Metallurgy	9.2%	2,471
Communications	7.1%	1,892
Real Estate and Related Services	6.8%	1,823
Finance	5.1%	1,376
Chemical Industry	3.0%	804
Food Industry	3.0%	801
Lumber Industry	1.9%	517
Equipment and Finished Metal Goods	1.9%	509
Transport	1.3%	361
All Others	46.3%	12,419
Total	100.0%	26,829

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Chapter 7: Trade and Project Financing

How Do I Get Paid (Methods of Payment)

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As in other markets, payment methods and terms may vary depending upon the U.S. company's familiarity with the market and its relationship with its Russian trading partner. For new to market companies, requesting advance payment for goods and services from your Russian customer may be a prudent course to follow until both parties establish a positive record of payment. Currently there are a limited number of American banks that accept Russian letters of credit from some of the largest Russian banks, specifically those that have been approved by the U.S. Export Import Bank. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short, and eventually even longer-term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments. The U.S. exporter might also consider insuring such credits with one of the larger Russian insurance companies that offer export credit insurance to foreign firms. Such insurance can be reinsured in the West with some of the largest international insurance companies.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases, financing may be provided by a bank, export credit agency or venture fund. In such cases it is possible to minimize the exporters risk through acquiring a bank or insurance guarantee from a Russian bank that will be accepted by a U.S. bank. In cases when leasing is appropriate, exporters should insist on an upfront payment of three to fourth months of lease payments upon delivery as a way to mitigate some of their risk.

Many Russian banks now offer factoring services. However, the volume and value of transactions using this technique have yet to achieve levels that are either profitable or self-sustaining.

International leasing may become an important alternative to export sales. The legal and tax environment for leasing in Russia has greatly improved since the enactment of amendments to the Russian leasing law in January 2002. Leasing has become increasingly attractive to both lessees and lessors because of its economic effectiveness, flexibility and accessibility in comparison to bank finance. Most large Russian banks have leasing programs that they offer their clients. There are also a handful of Western leasing companies operating in Russia that can offer Russian clients leasing terms for imported equipment. Aviation, energy, transportation, pharmaceutical, forestry and fishing industries equipment, which may be too expensive for Russian customers to purchase, are often leased.

The use of barter, once estimated to account for 70-80% of transactions in Russia, declined to less than 2% by 2001, as more liquidity returned to the system. While barter can be more complex than cash transactions, U.S. firms should not dismiss them, for they can be profitable and help a company win market share. As in cash transactions, companies are advised to stay engaged in all aspects of the deal, demand that commitments be met on schedule, and draw up contracts in accordance with Russian law to avoid tax and other problems.

How Does the Banking System Operate Return to top

Macroeconomic stability and a high rate of economic growth in recent years have contributed to the rapid development of the banking sector, owing to the rehabilitation of bank payment settlement systems, an increase in income and savings, and the growth of demand for investment resources. During the last two years, the Central Bank of Russia has achieved visible results in banking sector reform, which is being carried out in order to increase sustainability, functionality, transparency and reliability of the banking system.

Under the current legislation, foreign banks, including big names like Citibank and Raiffeisenbank, can operate in Russia only as subsidiaries. They are subject to all Central Bank regulations -- for instance, on capital and lending -- that apply to the banking sector. In the course of Russia's preparation for WTO accession, the Russian government is under pressure to allow foreign banks to open branch offices in Russia.

U.S. banks have increased their share of the Russian banking market. Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Capital and AIG are also entering Russia's retail banking sector. Morgan Stanley (which has been involved in investment counseling via a representative office) recently opened a subsidiary bank, which will be involved in investment Banking.

Russian banks' are also playing a more effective and normal role in the economy by collecting savings from more and more depositors and distributing them through loans and other types of financing to more productive uses. While the "pocket banks" of major financial and industrial groups which in the past just served their respective major clients are still common, the financial systems is becoming more populated with normally functioning, healthy banks.

Despite these recent improvements, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, a company doing business in Russia can easily access an expanding range of basic banking services offered by the larger commercial banks. Notwithstanding the closure of some banks by the Central Bank during the first half of 2004 that created a short-lived panic, a functioning banking sector is slowly beginning to emerge in Russia.

During the early 1990s a large number of small, poorly regulated and poorly managed banks grew up in Russia, and by 1995 the country had over 2,600 banks. The 1998 financial crisis crippled many banks and, although only a few were actually forced into liquidation, only around 300 remained active. Now, Russia has about 1,210 banks, consisting mostly of small institutions that serve as corporate treasuries. The number of small banks is gradually decreasing, with about 40 expected to disappear this year.

A new Chairman of the Central Bank of Russia was appointed in March 2002. Mr. Sergei Ignatyev announced as his immediate priorities a strengthening of bank supervision, adopting International Accounting Standards by 2004, and establishing a system of deposit insurance to include privately owned banks able to meet selection criteria. A Deposit Insurance System similar to the U.S. Federal Deposit Insurance Corporation was introduced starting in the first half of 2004. All Russian banks, which hold private deposits, are required to apply for "certification" in order to participate in this system. By the end of 2004, more than 1,200 banks had applied for admission, and as of November 2005, 924 banks had been approved. Most applicants are expected to gain entry into the system eventually. While the level of insurance is still small per depositor, this is an important step towards increasing the public's confidence in the system.

Private deposits held in banks in Russia reached 2.36 trillion rubles ($83 billion) in the first half of 2005, up from 2.02 trillion rubles in 2004, suggesting that depositors' confidence in the banking system has grown. According to forecasts made by Renaissance Capital Bank, retail deposits will grow to $229 billion by 2008. The state-controlled Sberbank still holds around 60% of total retail deposits – down from over 75% in 2000. Commercial lending still dominates, but loans to households are beginning to grow. Overall bank lending has been growing at an annual rate of $26 billion.

Limited choices and tradeoffs confront companies choosing a bank in Russia. There are three main types of bank: a foreign-owned subsidiary, a state-owned Russian bank, or an array of Russian private commercial banks.

Foreign-Exchange Controls Return to top

The Government of Russia has implemented a wide range of major economic reforms. Gradual removal of currency control restrictions will positively affect the development of Russia's business environment for U.S. exporters. The latest Currency Law (Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" introduced on December 10, 2003) has led to a "softening" of currency control regulations in Russia. The law introduced a liberalized regime that substantially limits the authority of the Central Bank of Russia (CBR) to restrict currency operations in Russia and divided currency regulation functions between the CBR and the Government of Russia (GOR).

The CBR is now responsible for currency operations related to loans and financing, securities transactions and banking operations. The GOR regulates currency operations relating to foreign trade, such as the export and import of goods, works and services, intellectual property and participation of residents in the charter capital of foreign companies other than joint-stock companies. Residents' investments in foreign companies, partnerships and other property (including in joint activity agreements - simple partnerships) are the only real "split jurisdiction" area, regulated by the Government in coordination with the CBR.

Among the most important new principles introduced by the law are the following:

Firstly, the law provides for an exhaustive list of currency operations subject to administrative regulation and establishes a "free hands" regime with respect to other currency operations between residents and non-residents by introducing the presumption that such currency operations should be free of restriction.

Further, it limits the list of regulators to the CBR and the GOR and clearly states that the above bodies may not introduce new requirements to the currency regime established by the Currency Law, except as provided by the law itself. Finally, the Currency Law explicitly abandons the traditional CBR licensing requirement that obliged businesses to obtain individual permits for particular types of currency transactions.

The prior regime of mandatory individual CBR licensing requirements (which was used to encompass the entire broad spectrum of so-called "capital currency operations") has been replaced by a combination of new, more permissive instruments of control - mandatory reserving of currency, advance registration and special accounts. Therefore, this fundamental change is seen as a major move to ease many types of currency operations.

The following three main permitted measures of currency regulation introduced by the Law may be imposed (only in the specific currency operations context and to the extent expressly contemplated in the Law):

Mandatory Reserving: Refers to a certain ruble amount that the CBR or the Government (as the case may be) may require a Russian resident or non-resident to block for a certain period of time in a separate non-interest-bearing account at a Russian authorized bank (with corresponding reservation of the equivalent sum by the authorized bank at the CBR). This is to be the most broadly applied measure of control, for many types of operations described throughout the Law. The general purpose of this requirement seems to be CBR currency reserve and ruble exchange-rate protection, as well as maintenance of some level of discouragement of capital flight through sham transactions as the individual licensing regime is lifted. The CBR already has some experience with this sort of mandatory reserving: under previous law. For example, previously Russian importers were required to deposit a 20% ruble reserve with their authorized bank, in connection with the purchase of rubles for an advance payment under an unsecured import contract.

Preliminary Registration: Currency operations must be registered with the Russian tax or customs authorities (with the tax authorities, for a Russian resident entity's or individual's opening an account with a foreign bank located in a foreign jurisdiction; or with Customs Service for export and import of Russian rubles or securities denominated in Russian rubles). This new registration requirement is intended for technical/monitoring purposes only.

Special Account: The CBR may require a Russian resident or non-resident to open and maintain a Special Account with a Russian authorized bank (or depositary, if the settlement involves securities) for settlements associated with certain operations as specified in the Law.

Most of the above mentioned measures (including all of the currency reserve and most of the special accounts requirements) will be in effect only until January 1, 2007.

The regime for banking and finance transactions, including loan facilities, security arrangements, bonds and other securities placement and trading, direct and portfolio investments, has also been substantially relaxed.

For more information, see Conversion and Transfer Policies' in the Investment Climate Statement.

U.S. Banks and Local Correspondent Banks Return to top

Most foreign businesses prefer to deal with foreign-owned banks, as they are more stable, more experienced and generally offer higher levels of service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, strong demand has drawn them into diversifying their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services including accounts, transfers, currency exchange, credit, documentary operations, letters of credit, and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele. Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg. U.S. banks have increased their share of the Russian banking market. As mentioned earlier, Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Capital and AIG are also entering Russia's retail banking sector, and Morgan Stanley will be providing Investment Banking services through its new subsidiary bank.

State Owned Banks

Two state-controlled banks, Sberbank and Vneshtorgbank, continue to dominate the corporate and retail banking sectors in Russia. The state also controls a number of smaller banks. The Russian government is urging Russia's state-controlled banks to modernize in order to play a more active role in the economy. At a recent banking 1conference in Siberia, President Vladimir Putin stressed that a significant number of banks created with state participation are weak and are not able to service large-scale projects such as“national projects" in housing, education and health care.

These "national projects" -- intended to transfer the flow of cash from oil and gas exports into improved living conditions for Russians -- have been characterized as the focus of Putin's second presidential term, which ends in 2008. The Kremlin, which increasingly advocates strong government involvement in the economy, sees strong and effective state banks as a condition for the success of the projects. Making state-owned banks more effective is also part of the Kremlin's plan to consolidate the banking sector.

Russian Private Commercial Banks

Other viable Russian banks include emerging service-oriented banks and large banks owned by financial-industrial groups. The 1998 crisis severely impacted the major

Russian banks, closing about 15 of the largest and leaving others in a weakened state and needing reorganization.

The most aggressive component of the Russian banking system is a group of new banks that grew larger following the 1998 crisis. They are competitive and likely to remain customer oriented and to find creative solutions to Russia's business complexities. A potential weakness is their limited capacity to provide services comparable to those of large international banks. Furthermore, they lack nationwide coverage. Ten of the leading banks are:

- Alfa-Bank
- Bank of Moscow
- Gazprom Bank
- International Moscow Bank (almost entirely owned by European Banks & EBRD)
- MDM Bank
- Mezhprombank
- PromSvyazBank
- Rosbank
- UralSib Bank

Project Financing Return to top

The Russian banking sector has largely recovered from the August 1998 financial crisis. A mini-banking crisis during the first half of 2004 was handled fairly quickly. The rate of increase in the volume of loans provided by banks exceeds GDP growth. A number of western investment banks and venture funds have steadily increased the size of their project finance portfolios. Additionally, a number of bilateral and multilateral financial institutions continue to facilitate trade and investment in both the public infrastructure and private sectors. However, the use of long-term, limited recourse project financing remains hampered by several difficulties. These factors include the immaturity of commercial legislation, poor contract enforcement, a lack of transparency in beneficial ownership, the inefficient process and high cost of collateralizing project assets, limited rights of debt and equity holders, and weak contractor performance requirements.

U.S. Export-Import Bank (Ex-Im Bank)

Since the U.S. Export-Import Bank (Ex-Im Bank) began lending to support U.S. exports to Russia in 1992, total authorizations have been $3.2 billion (total exposure in Russia is currently around $1billion). Although there was a decrease in activity in the wake of the financial crisis of 1998, in the last several years, authorizations for Russia have steadily increased and have averaged approximately $150 million per year. Today, Ex-Im Bank's outstanding portfolio is in such sectors as aircraft, health care and mining.

In fiscal year 2005 (from October 2004 to September 2005), Ex-Im Bank authorized approximately $119 million worth of exports to Russia. Ex-Im Bank's business in Russia during this time remained concentrated in supporting sales of agricultural commodities and equipment, machinery and equipment for the oil & gas sector and manufacturing equipment. FY2005 authorizations increased slightly relative to FY2004, by approximately 20%. Authorizations for credit insurance, predominantly short-term credit (i.e. less than one year in maturity), increased significantly in terms of both the value and volume of transactions.

For additional information on the U.S. Ex-Im Bank's financing options and its projects in Russia, please contact the Bank directly (see Chapter 9 for contact information.)

The Overseas Private Investment Corporation (OPIC)

In an agreement ratified in June 1992, OPIC was authorized to provide long-term loans, loan guarantees and political risk insurance against political violence, currency inconvertibility, and expropriation. In 1994, to meet the demands of larger projects in Russia (and worldwide), OPIC doubled the amount of insurance and quadrupled the amount of finance support - to $200 million in each case - it can commit to an individual project (a total of $400 million). OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds.

In 2002, OPIC provided a $70 million investment guaranty to the fund, Russia Partners II, L.P., managed by New York and Moscow-based Russia Partners Management. This fund supports fast-growing businesses in consumer services. In 2003, OPIC approved a $150 million OPIC loan guaranty to support Citibank's U.S. Dollar and local currency projects in Russia and the CIS and also provided Russia's leading oil producer with $130 million in financing for a project that will enable Russia to expand its oil export capacity in a cost-effective manner. In 2004, OPIC provided $125 million in financing to enable DeltaCredit Bank to more than triple its residential lending in Russia. In fiscal year 2005, OPIC's total issuance for Russia was valued at $157 million, covering 14 projects.

At the beginning of fiscal year 2005, OPIC opened a new office, co-located with the U.S. Commercial Service, in Moscow, Russia to respond to increasing interest in the region for political risk insurance and long-term project finance. (See Chapter 9 for contact information.)

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Export-Import Bank of the United States: http://www.exim.gov
Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html
OPIC: http://www.opic.gov
Trade and Development Agency: http://www.tda.gov/
SBA's Office of International Trade: http://www.sba.gov/oit/
USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm
U.S. Agency for International Development: http://www.usaid.gov
European Bank for Reconstruction and Development: www.ebrd.org

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Chapter 8: Business Travel

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At first meeting, Russian business people can come across as indifferent and cold to Americans. Do not let this influence your impression, as this is strictly cultural. Russians are known for not smiling and once they get to know you will tell you that they save their smiles for home and family.

Scheduling meetings can be difficult, but this is also the norm. It can sometimes take weeks to get a response to an email, fax or a telephone message request for a meeting. Once contact has been established, patience is still required to confirm a date and time to meet. And, it is not uncommon for meetings to be cancelled with no explanation. If you do not speak Russian, it is recommended that you hire an interpreter. Since traffic is a problem in Moscow and St. Petersburg, Russian company representatives appreciate meeting in a convenient location, and are not adverse to meeting in their offices or accepting an invitation for a lunch meeting.

Russian businessmen and women predominately wear business suits.

Business cards are a must and are exchanged freely. Cards should have regular contact information and an email address as well. Most foreign businesspeople in Russia carry English/Russian business cards (one side English, the other Russian).

Small gifts are acceptable but not expected.

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The State Department issues travel advisories when warranted by local conditions. Conditions in Chechnya and surrounding areas are extremely dangerous due to continued military action and political tension in the area and the State Department has issued a permanent warning against traveling to this area. Some U.S. citizens have been killed or have disappeared in Chechnya or adjacent Dagestan; and local gangs continue to seize hostages on occasion. Anyone considering travel to such areas is strongly urged to obtain an up-to-date travel advisory from the U.S. Department of State

(Tel: 202-647-5225 or the travel advisory link from websites: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html or www.travel.state.gov). Public gatherings and demonstrations occur occasionally in major cities of Russia. Although such demonstrations are usually peaceful, travelers are urged to exercise caution in areas where large groups are gathered.

Travel Tips

Hotels: While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are undeveloped in most of Russia, and many goods and services taken for granted in other countries are not yet available. Moscow, St. Petersburg, Novgorod, Nizhniy Novgorod, Nizhnevartovsk, Perm, Samara, Yekaterinburg, Perm, Sochi, Yuzhno Sakhalinsk and Vladivostok, among other cities, have Western-style hotels, though often priced at a premium compared with other major cities of the world. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates. Some regional hotels raise rates for foreign guests. It is possible to find well-appointed hotels in some small towns; it is equally possible to find yourself temporarily without water or electricity when visiting other regions of Russia.

Clothing: While winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities, Moscow and St. Petersburg's climate can be less severe than some northern U.S. cities. Winter clothes may be needed as early as October or as late as April. Water-resistant footwear with thick soles is advised, as the pavement is often rough and large puddles form after rain. In winter one must be prepared for either slush or icy sidewalks. People dress for warmth. However, a business suit is the norm for both working men and women. Men usually wear a heavy topcoat and women a mid-calf coat with a hood and gloves are the norm. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels.

Food: A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, Mexican and fast food establishments. Russian food is not exotic to American tastes, and many visitors find such regional cuisine as Caucasian, Georgian, and Uzbek to be interesting contrasts. In smaller communities, visitors often must accept the food available at hotels or traditional Russian restaurants.

Money: Russia is a predominately cash economy with the Russian ruble as the only legal tender for local transactions. It is illegal to pay for goods and services in U.S. Dollars or other foreign currency. Old, worn, or marked dollar bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at some modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but at very few stores. Traveler checks are not widely accepted except in major cities, and only rarely at stores catering mainly to Russians. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing travelers checks or obtaining cash advances on credit cards. Rubles (and Dollars, if needed) may be obtained from bank ATMs that are connected to the PLUS and CIRRUS systems using your U.S. debit/credit cards. It is not recommended to use your credit/debit cards for small purchases or in stand-alone ATMs (those not physically located at a bank). ATMs are becoming more common in downtown Moscow, although there have been some instances of theft from card numbers used in these systems. Western Union has agents in Moscow, St. Petersburg, and some other large cities, which disburse money wired from the United States.

Personal Security

Crime: While the violent crime rate in Moscow and St. Petersburg is still below that of many major U.S. cities, there has been a surge of racially and ethnically-motivated attacks by "skinhead" groups and others on foreigners in Moscow and other big cities over the last two years. There have also been a number of incidents in which foreign patrons of Russian bars and restaurants have been drugged and robbed. Nationals from several countries have had drinks spiked with the drug clonidine in clubs and restaurants, and after bringing a guest home. Clonidine can lower blood pressure and result in fatigue and disorientation, followed by up to twenty-four hours of unconsciousness. The after-effects often last three to five days.

In Moscow and St. Petersburg, the most prevalent crime is theft, primarily from hotel rooms and train compartments, and by pickpockets and bands of street criminals. While there is little overt anti-American sentiment in Russia, Westerners are often targeted because of their perceived wealth, and street criminals operate in areas frequented by tourists and business travelers. Most foreigners are easily identifiable on Russian streets.

To reduce the risk of personal crime, U.S. businesspeople should be alert to their surroundings and guard belongings in hotels, restaurants and other high-density tourist areas. Do not assume that you can blend in on the street. Do not leave valuables in hotel rooms - keep your passport and visa with you at all times, and retain copies in a separate location in case of loss or theft of the originals. Be alert to the potential for robbery in metro stations or trains where gangs of adults and children sometimes seize handbags or pick pockets. Also be alert to scams on the street or in stations involving money changing or lost or found money. Consider using a neck purse or belt wallet to protect your passport, visa and credit cards from pickpockets. On inter-city overnight trains, secure the door to your compartment with some sort of jamming device (many people simply use a wire coat hanger). While many residents of Moscow and St. Petersburg flag private "gypsy cabs" for rides, this is a riskier form of transport that is better avoided by the inexperienced. Travelers are advised to use only marked taxis or radio taxis.

Finally, American business people who utilize local banking, security and medical treatment should provide only the minimum information required for service. Reports have been received indicating that confidential credit, financial, banking and medical information has been supplied to organized crime gangs. In turn, these gangs use the information to extort foreigners.

Drug Penalties: U.S. citizens are subject to the laws of the country in which they are traveling. Penalties for possession, use, or trafficking in illegal drugs are strict and convicted offenders can expect jail sentences and fines.

U.S. Embassy/Consulate Locations and Services

--Consular Services: All Americans who reside in Russia for three months or longer are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates. Those staying for shorter periods may also register and inquire about updated travel and security information. Registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency. Americans can obtain visas from the Consular Section of the Russian Embassy or from one of three other Russian Consulates in the United States:

U.S. Embassy - Moscow
William J. Burns, Ambassador
8, Bolshoy Devyatinsky Pereulok, Moscow 121099
American Citizen Services, Consular Section
23 Novinskiy Blvd, Moscow 123242
Tel: (495) 728-5577, Fax: (495) 728-5084
After-hours (emergencies): Tel: (495) 728-5025/728-5000

U.S. Consulate-General - St. Petersburg
Consul General Mary Kruger
15 Furshtadkskaya Street, St.Petersburg 191028
Tel: (812) 331-2600, Fax: (812) 331-2852
After-hours emergencies: Tel: (812) 271-6455 or 939-5794

U.S. Consulate General - Vladivostok
Consul General John Mark Pommersheim
32 Pushkinskaya Street, Vladivostok 690001
Tel: (4232) 300-070, Fax: (4232) 499-371/2
(4232) 300-091 (visa section)
After-hours emergencies: Tel: (4232) 710-067

U.S. Consulate-General – Yekaterinburg
Consul General John Stepanchuk
15A Gogolya Street, 4th Floor, Yekaterinburg 620151
Tel: (343) 379-3001/379-4619/91, Fax: (343) 379-4515

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All Americans traveling to or transiting through Russia by any means of transportation must have a valid passport and visa. Travelers who arrive without a passport or entry visa are subject to fines, delays, and/or deportation by route of entry at the traveler's expense. The Embassy continues to recommend that all travelers obtain visas before traveling to Russia, regardless of the length of their stay or the purpose of their travel, including those simply changing planes at Sheremetovo Airport. Visas, other than for transit purposes, are issued based on support from a Russian individual or organization - the sponsor. It is very important to know your sponsor and how he or she can be contacted. Russian law requires the sponsor to apply for replacement, extension or changes to your visa. The U.S. Embassy and Consulates cannot act as a sponsor. Tourists should contact their tour company or hotel in advance for information on visa sponsorship.

All foreigners must have an exit visa to depart. For short stays, the exit visa is issued along with the entry visa. For longer stays, the sponsor must obtain the exit visa after the traveler's arrival. The vast majority of Russian visas are issued exit permission along with the entry visa. Under new legislation, all foreigners are required to complete a "migration card", which is handed out upon arrival in Russia – either on airplanes or at border crossings. The migration card serves as a record of the visa type, entry/exit, and registration. Upon departure, the migration card must be turned into immigration authorities. Failure to do so may result in delays and possible problems during future travel to Russia. All travelers who spend more than three days in Russia must register their visa through their hotel or sponsor and may encounter problems when leaving the country if they fail to do so. Visitors, who either lose or overstay their visas, even for one day, are unable to leave until the visa is extended or replaced. In order to avoid needing a visa extension, the Embassy advises all Americans to obtain visas for a longer validity than they anticipate needing and to depart before the visa expires. Errors in dates or other information on the visa can and do occur, and it is helpful to verify this information before departing the United States. It is recommended that travelers have all entry, exit, and itinerary points listed on their visa, in order to avoid any difficulties in registering or any delays in travel. Although it is no longer legally required for all itinerary points to be listed, not all local authorities seem aware of the change. Random document checks by police on foreigners are frequent, so U.S. citizens should carry their passport and visa. Failure to present proper documentation can lead to detention and/or fines.

Please note that the dates on Russian visas are listed in the European style (date, month, year). Below is contact information for the Russian Embassy and Consulates in the U.S.

The Russian Embassy and Consulate in Washington, DC
Tel: (202) 939-8902/07/13/18
Fax: (202) 483-7579

The Russian Consulate in New York City
Tel: (212) 348-0926/55
Fax: (212) 831-9162

The Russian Consulate in San Francisco
Tel: (415) 928-6878, 202-9800/01
(415) 929-0862 (visas)
Fax: (415) 929-0306

Russian Consulate in Seattle
Tel: (216) 728-1910
Fax: (216) 728-1871

Russian Consulate in Houston
Tel. (713) 337-3300
Fax: (713) 337-3305

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas: http://www.unitedstatesvisas.gov/

U.S. Embassy Moscow website: http://www.usembassy.ru

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Internet Accessibility: The level of penetration and Internet awareness is still low in Russia. Recent figures show that only 15% of the Russian population use the Internet on regular basis; 70% use dial-up connection services. The number of ADSL and broadband users are still small but gradually increasing. The largest players in Russian language e-mail service and search engines are Mail.ru, Rambler and Yandex.

Wi-Fi is at the initial stages of its development in Russia. However, it is already available is select locations. Currently, there are about 500 hot spots active in Russia that are primarily located in Moscow and St. Petersburg. The Marriott Hotel chain was the first Wi-Fi zone in Moscow and in Russia, launched in spring 2003. Vimpelcom (cellular carrier) has also entered this market by organizing a WLAN zone in Sheremetyevo airport and in the Iris Congress Hotel.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market. By the end of 2006, the Russian Ministry of Communications is expected to start issuing licenses for third-generation (3G) cellular communications services. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom and Megafon.

Long distance telephone calls can usually be made from a hotel. AT&T, MCI and other telecommunications companies can provide calling card service with local access numbers. Check with your phone card provider for specific information. Calls can also be made from phone kiosks, located near metro and train stations, tourist attractions and in downtown areas, with pre-paid, locally purchased phone cards.

It is also possible to make calls from the local Telephone and Telegraph office as well as from the Central Russian Telephone Office located at 5 Tverskaya Ulitsa in Moscow. This is the cheapest way to call, but also necessitates standing in line and putting in a request to make an international call.

A rudimentary knowledge of the local language is extremely helpful for those placing a call through the Telephone and Telegraph office. Moscow is 8 hours ahead of Washington, D.C. To reach Moscow from the U.S. you need to dial Russia Country Code +7, Moscow City Code 495 and a phone number.

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Air travel within Western Russia is occasionally erratic but generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are often delayed or cancelled in winter months due to snow or fog. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers. Moscow has four major airports. Most international flights enter Moscow through Sheremetyevo-2 and Domodedovo. Travelers may continue to other Russian cities from Sheremeyevo-1, Vnukovo or Domodedovo airports. Travel time to the connecting airport can be as much as an hour and a half from Sheremetyevo-2, and ample time must be allowed for passport control, customs clearance and baggage retrieval. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

A good way to travel in Russia is by train. From St. Petersburg to Moscow, travelers can generally ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have been reported. Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines," and criminals occasionally prey on travelers, especially in isolated areas.

In Moscow and St. Petersburg, the metro (subway) is an efficient and inexpensive, though crowded, means of transport. Signs are in Russian only, so it is helpful at least to learn the Cyrillic alphabet before you come. Marked taxis are increasingly present in Moscow and St. Petersburg. Short-term business travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter jaunts.

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Though many better-educated Russians in major cities speak English, you should be prepared to operate in Russian. Many first-time visitors are struck by how difficult it can be to find anyone who speaks English. U.S. businesses should hire a reputable interpreter when conducting important negotiations. Not having product literature in Russian will put your company at a big disadvantage relative to your European and Asian competitors, not to mention local firms.

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As in many countries of the world, travelers should drink only boiled or bottled water. Medical care is usually far below western standards, with occasional shortages of basic medical supplies. In Moscow and St. Petersburg there are now a number of western managed medical and dental clinics that provide adequate ambulatory care. Such facilities usually require cash payment at western rates upon admission. For serious medical conditions, it may be necessary to travel to the West, and this can be very expensive if undertaken under emergency conditions. The cost of a medical evacuation (in an air ambulance) from some Russian regions exceeds $100,000. Thus, travelers should check their insurance coverage and consider buying supplemental coverage for medical evacuation. Elderly travelers and those with pre-existing health problems may be at particular risk. Further information on health matters can be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at 1-877-394-8747, or via the CDC home page at http://www.cdc.gov. The U.S. Embassy and Consulates maintain lists of such facilities and of English speaking doctors.

Local Time, Business Hours, and Holidays

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There are eleven time zones across Russia. Moscow is 8 hours ahead of Eastern Standard Time.

Most companies and offices have the same business hours of 9:00 a.m. - 6:00 p.m. Many of the shopping centers and supermarkets are open 10:00 a.m. till 8:00 p.m.

Russian Holidays: The holidays listed below are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas. Travelers should be advised that little business is done from mid-December through mid-January. The country basically shuts down for business from New Year's to Orthodox Christmas. Government offices, most businesses and even much of the press close during this period. The period from May 1 through May 9 is similar.

U.S. Embassy Official U.S./Russian Holidays for 2006

January 2 (Jan 1)	Monday (Sunday)	US/R	New Year's Day
January 3-5	Tuesday-Thursday	R	New Year Days (also Jan 2)
January 6 (Jan 1)	Friday (Sunday)	R	New Year Day
*January 9 (Jan 7)**	*Monday (Saturday)**	*R**	*Orthodox Christmas**
January 16	Monday	US	Martin Luther King Day
February 20	Monday	US	Presidents' Day
February 23	Thursday	R	Defenders' Day
March 8	Wednesday	R	International Women's Day
May 1	Monday	R	International Labor Day
May 9	Tuesday	R	Victory Day
May 29	Monday	US	Memorial Day
June 12	Monday	R	Russian Independence Day
July 4	Tuesday	US	American Independence Day
September 4	Monday	US	Labor Day
October 9	Monday	US	Columbus Day
November 6 (Nov 4)	Monday (Saturday)	R	Day of Consent & Reconciliation
November 10	Friday	US	Veterans' Day
November 23	Thursday	US	Thanksgiving Day
December 25	Monday	US	Christmas Day

When holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday.

Temporary Entry of Materials and Personal Belongings

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Russian customs procedures include entry and exit declaration forms. The new law on currency regulation and control allows foreigners to export up to $3,000 without providing a customs declaration or proof of how the money was obtained. However, foreigners may also export up to $10,000 by simply filling out a customs declaration upon exit. More than $10,000 can be exported upon proof that it was imported into

Russia legally (a stamped customs declaration or proof of a legal bank or wire transfer must be presented to export currency). Failure to follow these procedures can and does result in delays, detentions, confiscation of the currency, and even imprisonment. Lost or stolen customs forms should be reported to the Russian police, and a police report (spravka) should be obtained to present to customs officials upon departure. Often, however, the traveler will find that the lost customs declaration cannot be replaced.

Currently, personal items not exceeding Rubles 65,000 in value and a weight of 50 kilos may be exported free of charge. A 30% duty may be required to export any personal items valued at over Rubles 650,000 and weighing no more than 200 kilos, although additional charges may be required depending on the type of item to be exported. Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or cultural value -- icons, rugs, art, antiques, etc. -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of a 100% duty. Occasionally, dealers of quality items may be able to arrange this approval at considerably less cost. Certain items, such as caviar, medications, jewelry, precious/semi-precious stones or metals, and fuel may be exported duty-free in limited amounts only.

Computers, electronic notebooks and related hardware must be presented to customs officials at the airport for scanning at least two hours prior to departure. The Embassy understands that customs officials may require "information storage devices" to be submitted 24 hours before departure. The law is often neglected but can be enforced on a-case-by-case basis. Failure to follow the customs regulations may result in penalties ranging from confiscation of the property in question and/or imposition of fines or arrest.

To prevent possible difficulties in taking currency and valuables back out of Russia, travelers are highly advised to ensure that their passenger declaration form is completed and is stamped by customs officials at the point of entry. This customs declaration should be kept and made available when exiting Russia.

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U.S. Department of State Website: http://www.travel.state.gov

Centers for Disease Control and Prevention: http://www.cdc.gov

U.S. Embassy Moscow Website: http://www.usembassy.ru

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Chapter 9: Contacts, Market Research, and Trade Events

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MINISTRIES AND GOVERNMENT OFFICES RELATING TO KEY SECTORS AND/OR SIGNIFICANT TRADE RELATED ACTIVITIES

Ministry of Economic Development and Trade
German Oskarovich Gref, Minister
1/3, 1st Tverskaya-Yamskaya, Moscow 125993
Tel: (495) 200-0353; 950-9263 (The Americas Dept.), Fax: (495) 251-6965
http://www.economy.gov.ru/wps/portal/ministry

Ministry of Finance
Aleksey Leonidovich Kudrin, Minister
Ulitsa Ilyinka 9, Entrance 1, Moscow
Tel: (495) 298-9101/-9130/-9140/-9868; Fax: (495) 925-0889

Ministry of Industry and Energy
Viktor Khristenko, Minister
7, Kitaigorodskiy Proyezd, Moscow 103074
Tel: (495) 710-5500; Fax: (495) 710-5150 (International Dept.)

Ministry of Communications & Information Technology
Leonid Reiman, Minister
7, Tverskaya Ul., Moscow 103375
Tel: (495) 771-8011; Fax:(495) 771-8734

Ministry of Transport
Igor Levitin, Minister
Rozhdestevenka street 1, Moscow, 103759
Tel: (495) 926-1527, Fax: (495)926-9128

Ministry of Health and Social Development
Mikhail Zurabov, Minister
3 Rakhmanovsky Per., GSP-4, Moscow 101461, Russia
Tel.: (495) 925-1140, Fax: (495) 200-0212

Ministry of Agriculture
Aleksey Vassilievich Gordeyev, Minister
Orlikov Pereulok, 1/11, Moscow, 107139
Tel: (495) 207-8362, Fax: (495) 207-8000

Website: http://www.mcx.ru

Russian Agency for Patents and Trademarks (Rospatent)
B.P. Siminov, Director General
30-1 Berezhkovskaya Nab., Moscow 121858, Russia
Tel. (495) 240-6138, 240-6015; Fax: (495) 243-3337
Website: http://www.rupto.ru

Central Bank of Russia
Sergey Ignat'yev, Chairman
Sergey Vladimirovich Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow, 103016
Tel: (495) 771-9100; Fax: (495) 921-6465
http://www.cbr.ru

SELECTED REGIONAL GOVERNMENTS

Moscow City Administration
Iosif Nikolaevich Ordzhonikidze
Deputy Mayor of the Government of Moscow
13 Tverskaya Ulitsa, 103032, Moscow
Tel: (495) 229-6360; Fax: (495) 230-2856

St. Petersburg City Administration
Aleksander V. Prokhorenko, Chairman
Committee for External Relations and Tourism
1 Smolny, 191060 St. Petersburg
Tel: (812) 576-7113; Fax (812) 576-7633
http://www.eng.gov.spb.ru

Chukotsky Autonomous Okrug Government
Aramais Dallakyan, Vice Governor
20 Bering St., #49, 689000 Anadyr, Russia
Tel: (42722) 29 049/50,29 031, Fax: (42722) 290 49, 290 65
E-mail: goubernator@chukotka.sibneft.ru

Natalia Slugina, Head of International Dept.
Tel: (47222) 29049, Fax (42722) 290 49
E-mail: NataliaSIChu74@yandex.ru; admin87chao@mail.ru,
http://www.chukotka.org

Kamchatka Oblast, Foreign Economic Relations and Tourism Division
Natalia Ermolenko, First Vice Governor
Tel: (41522) 412 068, Fax: (41522) 420 822

Tamara Tutushkina, Head of Foreign Economic Relations and Tourism Division
1 Lenin Square, 683040, Petropavlovsk Kamchatsky, Russia
Tel/fax: (41522) 412 355; 420 822;
E-mail: kra@mail.kamchatka.ru
Website: www.ako.kamchatka.ru

Khabarovsk Territorial Administration
Aleksandr Borisovich Levintal, Deputy Chairman of the Krai Government
Minister of Economic Development and Foreign Relations of the Khabarovskiy Krai
19 Muravjego-Amurskogo ul. 680000 Khabarovsk, Russia
Tel: (4212) 329 739, 325 544; Fax: (4212) 322-253
E-mail: econ@adm.khv.ru

Leningrad Oblast
Zhanna V. Aleksandrova, Chairman
Committee for International and Regional Relations
Suvorovsky Prospect, 67, 193311, St. Petersburg
Tel: (812) 274-4742; Fax: (812) 274-5986

Primorskiy Territorial Administration
Victor Vasilyevich Gorchakov, Vice Governor
Committee on Foreign Economic Relations, Investment and Transport
22 Svetlanskaya Ul., 4 floor, 690110, Vladivostok, Russia
Tel: (4232) 208 358; Fax: (4232) 209 173
E-mail: gorchakov@primorsky.ru
Website: http://www.primorsky.ru

Sakhalin Regional Administration
Vadim Rokotov, Acting Chairman
Committee of International, Foreign Economic and Inter-Regional Relations
32 Kommunisticheskiy Prospect, "Sakhincenter", office 236
693000, Yuzhno-Sakhalinsk, Russia
Tel: (4242) 727-494 Fax: (4242) 727-493
E-mail: up_forecon@adm.sakhalin.ru
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Market Research

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/russia/en/products_services.html

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